Energex

Response to the AER's Framework and Approach - Preliminary Position Paper

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positive energy

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1 Executive Summary

Energex is subject to economic regulation by the Australian Energy Regulator (AER) under Chapter 6 of the National Electricity Rules (Rules), with the current five year regulatory control period concluding on 30 June 2015. One aspect of the economic regulation by the AER is the Framework and Approach (F & A), which is the first step to determine efficient prices for electricity distribution services. The F & A, amongst other things, determines which services the AER will regulate, how the AER will set prices for regulated electricity distribution services and the application of any incentive schemes.

Amendments made to Chapter 6 of the Rules in 2012, now provide that if there is already a F & A that would apply in respect of the distribution determination, then the Distribution Network Service Provider (DNSP) may apply to the AER to request an amendment or replacement F & A. Otherwise, the AER must publish a notice inviting submissions on whether it is necessary or desirable to amend or replace the existing F & A. The AER published such a notice on 27 June 2013. In September 2013, the AER released its decision to replace the existing F & A for Queensland DNSPs. Further to this decision, the AER is now consulting on its Preliminary Positions for the F & A.

Since Energex submitted its 2010-15 Regulatory Proposal in 2009 there has been considerable change in the regulatory and operating environment in the national electricity market. In particular, changes have been implemented at the State and Federal level aimed at moderating future price increases. Central to these changes is the promotion of improved customer engagement in network development and a heightened emphasis on increased efficiency in the provision of network services.

At the State level, the Queensland Government has instituted measures within the current regulatory control period aimed at reducing costs and identifying capital and operating expenditure savings. In early 2013, the Queensland Government published reports and recommendations identifying further reforms across the network businesses. These included reductions to network security and reliability standards and recommendations in relation to business practices and operations.

There are a number of other reviews currently being undertaken or expected to commence in the coming months, which are also relevant to the AER's F & A as they have the potential to change the legislative and regulatory framework relevant to Energex's operations. Furthermore, the AER has recently completed its Better Regulation Program and released a number of Guidelines, which impact on the development of the F & A for the next regulatory control period.

Energex has attempted to take into consideration the implications of these reviews and reforms in responding to the Preliminary Positions F & A but it should be recognised that changes to the classification of services and the formulae to give effect to the control mechanisms may be requested in the Regulatory Proposal as a result of unforeseen and exogenous factors outside of the F & A process. Energex requests that the AER remain

cognisant of such market reforms in developing its classification of services and control mechanism decisions.

1.1 Classification of Services

Classification of services is important as it determines the need for and scope of regulation to be applied to distribution services. When the AER classifies services it determines whether it will directly control prices, become involved only to arbitrate disputes or to not regulate at all. The classification will also determine whether Energex can recover the costs by averaging across all its customers or only charge those customers benefiting directly from the specific service.

Importantly, the Rules specify that for services regulated previously, the AER must act on the basis that unless a different classification is clearly more appropriate then there should be no departure from that classification. Appendix A of this response provides an overview of the current regulatory control period's (2010-15) classification of services. Appendix B provides a list of the AER's proposed classification of services for the next regulatory control period together with Energex's comments. Energex supports the AER's attempt to provide a clear description of the types of activities undertaken in each service category as outlined in Appendix B of the Preliminary Positions paper. Energex assumes that if a service arises in the future and is not listed in the table, then it can interpret the most appropriate classification based on similar services.

The AER has now undertaken a number of regulatory determinations and as such, the AER has settled on broad service group classifications, with minor changes to the previously termed 'quoted' and 'fee based' services to the newly termed 'ancillary network services'. Energex supports the AER grouping distribution services into the following:

- Network services
- Connection services
- Metering services
- Street light / public lighting services
- Ancillary network services

Taking into consideration the AER's Preliminary Positions, previous F & A Decisions and Energex's current classification of services, Energex provides the following comments in relation to the proposed service classifications for the next regulatory control period.

1.1.1 Network Services

Energex supports the AER's preliminary position for network services (comprising services provided over the shared network used to service all network users connected to it) to continue to be classified as a direct control service and further classified as standard control

services (SCS). Energex also supports the AER's proposed activities that comprise the network services category.

1.1.2 Emergency Recoverable Works

Emergency recoverable works are currently classified as a direct control service. The Rules clearly state that in classifying distribution services the AER "*must act on the basis that, unless a different classification is clearly more appropriate… there should be no departure from a previous classification*"[1]. This indicates that there is a relatively high threshold that must be met before the AER is justified in adopting a different classification. Energex does not believe that the AER has addressed adequately the factors that support a departure from the current classification.

Rather, there is a strong argument that emergency recoverable works should continue to be classified as a direct control service as:

- there is a regulatory barrier to a third party undertaking emergency recoverable works on Energex's network – there is no potential for competition[2]
- the party who caused the damage does not request that Energex perform emergency recoverable works[3]
- it is in the best interests of all customers connected to the shared network to ensure the damage is repaired as quickly as possible
- emergency recoverable works in other jurisdictions are currently classified as a direct control service[4]

Energex submits that in classifying emergency recoverable works, the AER is required by the Rules to focus on the distribution service being provided rather than on the recovery of costs mechanism. Therefore, whether Energex is repairing damage to the network caused by a storm or by a car should not be relevant to the AER for the purposes of classifying the service and as such the AER should not distinguish 'emergency recoverable works' from emergency response or corrective repair work (provided under network services).

For the reasons outlined above and further in section 5 of this response, Energex does not support the AER's proposal to reclassify emergency recoverable works from a direct control service to an unclassified service. Rather, Energex proposes that emergency recoverable works should remain classified as a direct control service as clause 6.2.2(d) requires that the AER must maintain the current classification unless a different classification is clearly more appropriate. Energex argues that not classifying this service is clearly not appropriate

[1] Clause 6.2.1(d), Clause 6.2.2(d)

[2] Clause 6.2.1(c)(1); National Electricity Law section 2F(a), (d)

[3] Clause 6.2.1(c)(1), National Electricity Law section 2F(g);

[4] Clause 6.2.2(c)(4). For example, in Victoria emergency recoverable works are currently classified as a direct control service and further as an ACS

considering the services that are being provided to all customers connected to the shared network.

1.1.3 Metering Services

Energex notes the AER's preliminary position is for type 6 metering services to be reclassified as an alternative control service (ACS) whilst type 7 metering should remain a SCS. Metering services (type 5-7) are currently classified as a SCS and clause 6.2.2(d) of the Rules requires the AER to classify direct control services consistent with the classification in the current regulatory control period unless a different classification is clearly more appropriate.

Whilst Energex does not disagree with the AER's preference to reclassify metering services, section 6 of this response highlights that a reclassification will have significant implementation and administrative costs for Energex, which will ultimately be borne by customers.

Energex does not support the reclassification of load control services (from a SCS) to an ACS to align with metering services. Energex does not believe that the definition of 'metering installation' under the Rules contemplates load control services.

1.1.4 Connection Services

Connection services are currently classified as a SCS except for large customers, which are currently classified as an ACS. However, Energex requests that the AER reclassify small customer connection services to an ACS. Further information to support this proposal is outlined in section 7 of this response.

Energex requests that Large Customer Connections (as defined in the Pricing Proposal), be reclassified from an ACS to an unclassified service. Further information to support this proposal is outlined in section 7 and 10 of this response.

1.1.5 Street Lighting Services

Energex requests that the AER continue to classify street lighting services as a direct control service and further as an ACS. Energex does not believe that a departure from the current classification is justified. Energex has consulted with its street lighting customers and believes that the majority will support this recommendation.

1.1.6 Ancillary Network Services

Energex supports the proposal to rename the current 'fee based' and 'quoted services' to the term 'ancillary network services'. The AER is proposing a number of changes to the services that are currently provided under the category of fee based and quoted services, in particular, the removal altogether of a number of services (e.g. additional crew, fault response and wasted attendance). Energex seeks confirmation that it will continue to have the ability to charge for these activities even though they are not separately classified.

1.2 Control Mechanisms and Formulae

Clause 6.8.1(b)(1)(i) of the Rules requires that the AER must set out in the F & A its decision, which is binding, on the form (or forms) of the control mechanisms. The AER has recommended that the control mechanism for Energex's SCS should continue to be a revenue cap. Energex supports this recommendation.

For ACS the AER has recommended that the control mechanism should continue to be capped prices for individual services (price caps). Energex supports this recommendation.

In relation to the formulae proposed by the AER, section 12 of this response outlines Energex's concerns in relation to the overly complex and mathematical approach to representing the formulae, which will make it difficult for customers to understand. Energex requests that the current ACS formula remain for those services that will be provided on a fixed fee or quoted basis.

1.3 Incentive Schemes

Clause 6.8.1(b)(2)(iii)-(vii) of the Rules requires that the AER must include in the F & A its proposed approach to the application of the various schemes in the next regulatory control period.

1.3.1 Service Target Performance Incentive Scheme (STPIS)

Energex supports a regulatory framework that places appropriate incentives on DNSPs to improve service performance. On this basis, Energex supports the continued operation of a STPIS in the next regulatory control period but agrees with the AER that the application of STPIS needs to be mindful of the potential impact on customers and the willingness of customers to pay for improved service performance. Therefore, taking this into account, Energex believes that the most prudent approach in relation to the application of STPIS is to:

- continue with a 'low-powered' revenue at risk of +/-2%, in preference to the base scheme of +/-5% in recognition of customers' willingness to pay for improved performance (refer to section 3 of this response)
- base performance targets on Energex's average performance over the past five regulatory years (2009/10 -2013/14)

1.3.2 Efficiency Benefit Sharing Scheme (EBSS)

Energex supports in principle the AER's proposal to apply the revised EBSS (version 2), published on 29 November 2013, for the 2015-20 regulatory control period. Energex agrees that the scheme provides a continuous incentive to pursue efficiency improvements in operating expenditure and supports the fair sharing of operating expenditure gains or losses between the business and its customers.

However, in the current regulatory control period Energex has experienced a number of one-off costs together with a reduced program of work. As a result, Energex has some concerns about the interaction of the AER's proposed base-step-trend approach to determining operating allowances with the application of the EBSS (noting that the June 2008 EBSS Guideline rely largely on applying the unadjusted revealed cost in the base year). Further comments on the proposed application of the EBSS are outlined in section 13.3 of this response.

1.3.3 Capital Expenditure Sharing Scheme (CESS)

In relation to the introduction and application of a CESS, Energex notes that the AER proposes to apply the new CESS even though the Rules do not prescribe the mandatory introduction or application of a CESS. Energex accepts the AER's proposal to apply the CESS in the next regulatory control period, as outlined in its 29 November 2013 Expenditure Incentive Guideline. However, similarly to EBSS, Energex proposes that uncontrollable events, which would qualify for a pass-through if a DNSP applied or where a pass-through would be permitted but for the materially threshold, should be excluded from the CESS.

1.3.4 Demand Management Incentive Scheme (DMIS)

Energex currently operates under the Demand Management Incentive Scheme (DMIS) with a capped demand management innovation allowance (DMIA) of $5 million. On 22 December 2011, the AEMC amended the Rules to expand the DMIS to include incentives for innovation in connection with embedded generation. Energex notes that the AER's intention to develop and implement a new Demand Management and Embedded Generation Connection Incentive Scheme, following the outcome of the Power of Choice Rule change process, will probably not be in time for Energex's Regulatory Proposal and Determination. Therefore, Energex assumes that the current DMIS will continue to apply to Energex for the next regulatory control period.

Even though the AER has not indicated a DMIA cap in the Preliminary Positions, Energex requests that the AER maintain the current DMIA cap of $5 million for the next regulatory control period, which is relative to the expected size of Energex's average annual revenue allowance.

1.4 Application of Expenditure Forecast Assessment Guideline

As required by clause 6.8.1A and clause 11.60.3 of the Rules, Energex submitted its expenditure forecasting methodology to the AER on 25 November 2013.

The AER has indicated in the Preliminary Positions paper that it intends to apply the full extent of tools available under the Guideline. Energex notes that some of the assessment tools and techniques available to the AER under the Guideline are still in development and are currently untested. Energex considers the AER should adopt a cautionary approach to applying the tools to the Queensland determination process.

1.5 Depreciation

Energex supports the AER's proposed approach to apply forecast depreciation to establish the regulatory asset base at the commencement of the 2020-25 regulatory control period.

2 Background

2.1 About Energex

Energex Limited (Energex) is a company Government Owned Corporation and is authorised under the *Electricity Act 1994 (Qld)* to hold a Distribution Authority that is administered by the Queensland Department of Energy and Water Supply. This Distribution Authority licenses Energex as a DNSP to deliver distribution services to approximately 1.3 million connections across South East Queensland.

Chapter 9 (clause 9.32.1(b)) of the Rules provides a derogation, which deems that Powerlink[5] is the only Transmission Network Service Provider (TNSP) in Queensland, thereby consigning Energex's entire network to a distribution network for the purposes of the Rules. Energex takes supply of electricity from Powerlink at transmission connection points and distributes the supply via the sub-transmission and distribution network throughout South East Queensland.

2.2 Current Operating Environment

There has been considerable change in the regulatory and operating environment over the current regulatory control period. In particular, in response to sharp increases in electricity prices, changes have been implemented at the State and national level aimed at moderating future price increases. Central to these changes is the promotion of improved customer engagement in network development and a heightened emphasis on increased efficiency in the provision of network services.

At the State level, the Queensland Government has instituted measures within the current regulatory control period aimed at reducing costs, including the Electricity Network Capital Program (ENCAP) Review, which identified capital and operating expenditure savings over the remainder of the 2010–2015 regulatory control period. The review resulted in reductions to Energex's network security and reliability standards with significant associated expenditure savings passed on to customers.

On 11 February 2012, Energex received a direction notice from the Queensland Government under section 115 of the *Government Owned Corporations Act 1993 (Queensland).* This direction required Energex to exclude revenue related to the expected reduction in its capital expenditure program, arising from the 2011 ENCAP Review. Energex has also foregone revenue or incentive rewards legitimately able to be recovered under the AER's 2010 distribution determination.

In early 2013, following a significant consultation and assessment process, the Queensland Government published reports and recommendations identifying further reforms across the network businesses, which included expenditure reductions recommended by the government's Independent Review Panel (IRP). The IRP also recommended a shift from

[5] Powerlink is the registered business name of the Queensland Electricity Transmission Corporation Limited

redundancy-based standards (N-1) to outcome-based reliability standards. The IRP also recommended that, as the level of reliability being delivered under the current minimum service standards (MSS) exceeds the level for which some customers are willing to pay, then MSS levels should be set at 2010 levels.

3 Customer and Stakeholder Engagement

The rapidly changing nature of the energy industry means DNSPs need to engage more actively with consumers to better understand their needs. Energex has embraced this change and has directed considerable resources to ensure that customer feedback is represented in Energex's response to the F & A process.

3.1 Customers' willingness to pay for improved performance

Clause 6.6.2(b)(3)(vi) of the Rules, states that in implementing a STPIS, the AER must take into account the willingness of customers and end users to pay for improved performance in the delivery of services.

Energex has recently conducted extensive consultation with customers about their willingness to pay for improved reliability performance. Through an online survey conducted by independent research firm, Colmar Brunton, Energex sought opinions from 2,554 residential and 891 small and medium business customers. Qualitative (one on one) research was also conducted with 40 large business customers and various advocacy groups. The summary findings from this research demonstrate that, by and large, customers are not willing to pay for improved levels of reliability.

It is well known that simply asking people to rate or choose their preferred item from a list will generally not gain any more insight than the fact that people want the benefits with little cost. To understand residents' and small and medium business' preferences regarding quality of supply and their willingness to pay or save for improved or worse supply quality, a more quantitative method was required to develop preference insights.

A discrete paired trade-off choice model was used to survey participants. A number of supply scenarios were developed and participants were presented with two options and asked to select what was the most acceptable to them. Each option included a combination of outage frequency, outage duration, time of day, weekday or weekend, planned or unplanned outage, and an associated price implication.

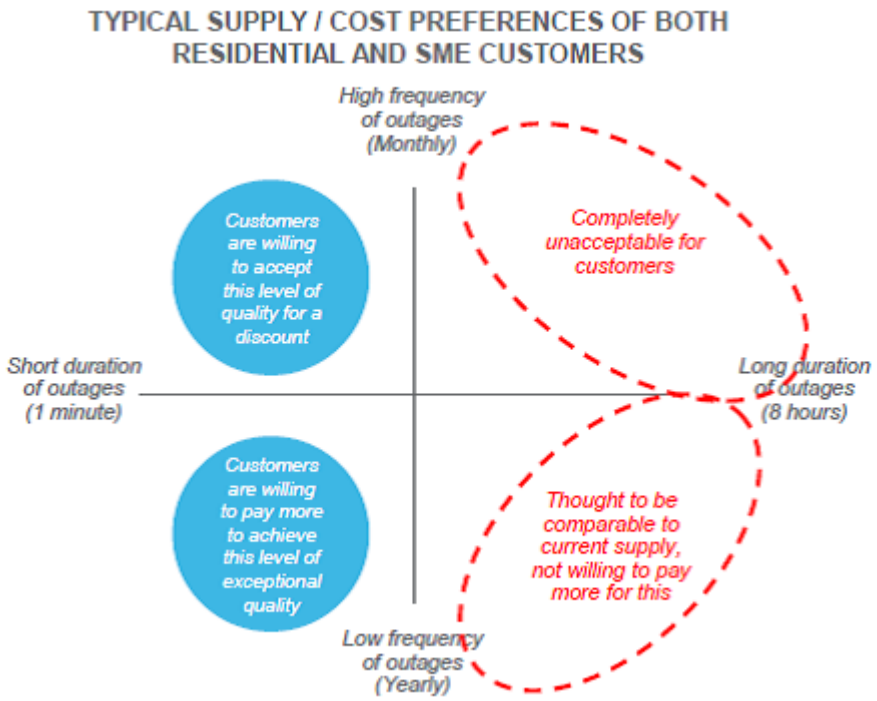
The results of this research demonstrated that the relationship between supply quality and willingness to pay is complex. It is not a linear relationship and customers are not willing to keep paying more for gradual improved levels of supply. Rather the threshold (regarding price increases for service improvements) appears to have been reached.

There is a clear preference for price stability. When that is not a possibility, there are two patterns of response amongst customers:

- To pay less for frequent, very short outages (customers are not willing to pay less if this results in lengthy outages)

- To pay more for exceptional supply quality (almost a flawless network, with virtually no outages).

Figure 1 below demonstrates a visual summary of the relationship between cost preferences and reliability standards.



The research indicates that 80% of residents and 79% of small and medium business customers were either satisfied or very satisfied with the level of supply they received, though satisfaction levels were marginally lower if the standard of supply received by customers was lower than the average reliability levels.

In the same research, Energex asked customers whether the level of network investment should be increased based on the quality of their current electricity supply, whilst giving consideration to potential cost implications. Only a small proportion of customers (16% of residents and 23% of small and medium business customers) suggested the level of investment should increase. Customers that demonstrated a greater preference for increased spend were more likely to have received a lower level of reliability suggesting that Energex should target reliability improvements in areas with a lower supply standard, rather than a larger program to improve the standard of reliability for all customers.

3.2 Connection Services and Metering Services

Customer engagement to date has not provided any clear feedback on the most appropriate classification of either connection and/or metering services. However, any reclassification will require a detailed communication and engagement program with customers as there is currently a high degree of uncertainty about who provides these services and little understanding about the cost to do so.

A survey of 2,571 residential and 522 small and medium business customers conducted by independent research firm Colmar Brunton on behalf of Energex demonstrated that there is confusion and varying opinions about who is responsible for providing metering services. Only 44% of residents and 43% of small and medium businesses currently believe that Energex is responsible for conducting meter readings. Perceptions from customers regarding who should be responsible in the future are broadly in line with who is believed to be currently responsible.

3.3 Street Lighting Services

Energex's street lighting customers are represented by 11 local councils and the Department of Transport and Main Roads (DTMR). Energex has met separately with councils, DTMR and the Local Government Association of Queensland to obtain feedback as to whether there are any implications from the current classification of street lighting. The feedback from the engagement has indicated that customers generally align with Energex's views in that street lighting customers would like to see the current classification (i.e. ACS) remain for the next regulatory control period.

4 Rule Requirements

The Rules require the AER to make and publish a F & A for a distribution determination that sets out the AER's approach to specified matters. The matters that the F & A must address fall within three categories:

- Category 1 – the F & A must set out the AER's binding decision (together with reasons) on the matter. The principal matter in this category is the form(s) of the control mechanisms to be applied[6]

- Category 2 – the F & A must set out the AER's proposed approach (together with reasons) on the matter. While the F & A may set out the AER's approach on a matter and the decision is not binding, the AER's final determination must be "as set out in" the F & A paper, "unless the AER considers that unforeseen circumstances justify departing from" the proposed approach in the F & A.

  The concept of 'unforeseen circumstances' is not defined in the Rules but it is arguable that this concept is designed to ensure that the AER's approach to classifying distribution services and control mechanism formulae, as set out in the F & A, is maintained (thereby providing regulatory certainty) except in fairly restricted circumstances.

- Category 3 – the F & A must set out the proposed approach (together with reasons) on these matters, but the AER has a broad discretion to adopt a different approach in the determination. These matters include:

  - application of any schemes[7]
  - application of the Expenditure Forecast Assessment Guidelines[8]
  - whether depreciation for establishing the Regulatory Asset Base is to be based on actual or forecast capital expenditure[9]

4.1 Transitional Arrangements

The review of Chapter 6 of the Rules in 2012 resulted in a number of significant changes to the economic regulation of network service providers and also required the AER to develop a number of guidelines by 29 November 2013. As such, the Australian Energy Market Commission (AEMC) developed transitional arrangements to enable the new Rules and guidelines to be applied as soon as possible and minimise the resourcing burden on all affected parties. The transitional rules are set out in Part ZW in Chapter 11 of the Rules.

[6] Clause 6.8.1(b)(1)(i)

[7] Clause 6.8.1(b)(2)(iii)-(vii)

[8] Clause 6.8.1(b)(2)(viii)

[9] Clause 6.8.1(b)(2)(ix)

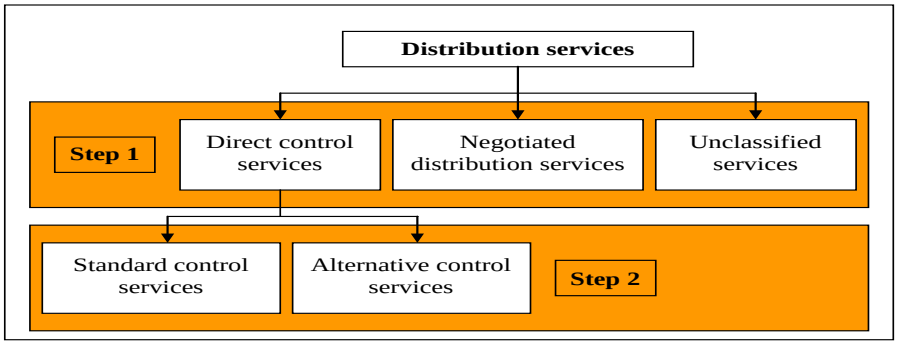
In arriving at the transitional arrangements, the AEMC considered that the incentive schemes should, to the extent possible and appropriate, apply in each year of the forthcoming regulatory period. Furthermore, the AER should have the flexibility to apply schemes differently in the first year.

In relation to the application of the new review of efficiency of past capital expenditure provisions, the AER will have the ability to preclude capital expenditure from being rolled into the regulatory asset base where it is inefficient, represents non-arm's length margins or inappropriate capitalisation of expenditure. The AER's ability to exercise this discretion will, however, be limited to the regulatory years following the publication of the AER's expenditure incentive guidelines.

4.2 Classification of Services

Classification of services is important as it determines the need for and scope of regulation applied to distribution services. When the AER classifies services it determines whether it will directly control prices, become involved only to arbitrate disputes or to not regulate at all. The classification will also determine whether Energex can recover the costs by averaging across all its customers or charge those customers benefiting directly from the specific service.

The regulatory framework for the classification of services is described in section 2F of the National Electricity Law and clause 6.2 of the Rules and is outlined in the diagram below.



4.2.1 Classifying Distribution Services

The first stage is to determine whether the service is a distribution service. The Rules define a 'distribution service' as '*a service provided by means of, or in connection with, a distribution system'*. 'Distribution system' is further defined as a:

> '*distribution network, together with the connection assets associated with the distribution network, which is connected to another transmission or distribution system*. *Connection assets on their own do not constitute a distribution system'*.

'Distribution network' is further defined as 'a *network which is not a transmission network'.*

And 'network' is further defined as:

The apparatus, equipment, plant and buildings used to convey, and control the conveyance of, electricity to customers (whether wholesale or retail) excluding any connection assets. In relation to a Network Service Provider, a network owned, operated or controlled by that Network Service Provider

In determining whether to classify a distribution service and, if so, whether to classify that distribution service as a direct control service or a negotiated distribution service, the AER must have regard to the four factors outlined in clause 6.2.1(c) of the Rules:

1) the form of regulation factors (in section 2F of the National Electricity Law):

- the presence and extent of any barriers to entry in a market for electricity network services
- the presence and extent of any network externalities (that is, interdependencies) between an electricity network service provided by a network service provider and any other electricity network service provided by the network service provider
- the presence and extent of any network externalities (that is, interdependencies) between an electricity network service provided by a network service provider and any other service provided by the network service provider in any other market
- the extent to which any market power possessed by a network service provider is, or is likely to be, mitigated by any countervailing market power possessed by a network service user or prospective network service user
- the presence and extent of any substitute, and the elasticity of demand, in a market for an electricity network service in which a network service provider provides that service
- the presence and extent of any substitute for, and the elasticity of demand in a market for, electricity or gas (as the case may be)
- the extent to which there is information available to a prospective network service user or network service user, and whether that information is adequate, to enable the prospective network service user or network service user to negotiate on an informed basis with a network service provider for the provision of an electricity network service to them by the network service provider.

2) the form of regulation (if any) previously applicable to the relevant service or services, and, in particular, any previous classification under the present system of classification or under the present regulatory system (as the case requires)

3) the desirability of consistency in the form of regulation for similar services (both within and beyond the relevant jurisdiction)

4) any other relevant factor.

4.2.2 Classifying direct control services as SCS or ACS

The AER must further classify each distribution service that is a direct control service as either a SCS or an ACS.

In classifying a direct control service as either a SCS or an ACS, clause 6.2.2(c) of the Rules states that the AER must have regard to:

- The potential for development of competition and how the classification might influence that potential;
- The possible effects of the classification on administrative costs of the AER, the DNSP and users or potential users;
- The regulatory approach (if any) applicable to the relevant service immediately before the commencement of the distribution determination for which the classification is made;
- The desirability of a consistent regulatory approach to similar services (both within and beyond the relevant jurisdiction);
- The extent that costs of providing the relevant service are directly attributable to the customer to whom the service is provided; and
- Any other relevant factor.

Importantly, the Rules specify that for direct control services regulated previously, the AER must act on the basis that unless a different classification is clearly more appropriate then there should be no departure from that classification[10].

4.3 Control Mechanisms

Unlike other elements of the F & A, the AER's position on the form of control mechanisms as set out in the F & A is binding on the AER and the DNSP. The distribution determination must impose a control on the price of, and / or revenue derived from, direct control services. Clause 6.2.5(b) of the Rules states that the control mechanism may consist of:

- Revenue cap
- A schedule of fixed prices
- Caps on the prices of individual services
- Tariff basket price control / Weighted Average Price Cap
- Revenue yield control / average revenue cap

[10] Section 6.2.2 (d) of the NER

- A combination of any of the above

The forms of control mechanism available for SCS and ACS are the same. The basis for the control mechanism, however, can differ depending on which class of service it is to apply to.

Further discussion on the appropriate control mechanisms is provided below in section 12.

5 Network Services

Energex submits that Network Services are a distribution service and satisfy the criteria in the Rules and therefore, should continue to be classified as a direct control service and further as a SCS

Energex does not support the AER's proposal to not classify emergency recoverable works. Emergency recoverable works are currently classified as a direct control service and should remain classified as a direct control service.

5.1 Overview

Network services relate to the 'shared' network used to service all network users who are connected to the network. Network services are provided by Energex as a distribution network service provider and are undertaken to meet regulatory and legislative obligations. The Rules define a 'network service' as a 'distribution service associated with the conveyance, and controlling the conveyance, of electricity through the network.'

In Queensland, the *Electricity Act 1994* provides the following obligations on Energex with respect to 'network services':

- Section 10 - defines 'network services' as services for electricity transfer provided by transmission entities and distribution entities to persons connected to a transmission grid or supply network.
- Section 42 - Energex as the holder of a distribution authority must operate, maintain (including repair and replace as necessary) and protect its supply network to ensure the adequate, economic, reliable and safe connection and supply to customers.
- Section 44 - Energex as the holder of a distribution authority must provide, as far as technically and economically practicable, network services, on fair and reasonable terms, for persons authorised to connect supply of electricity to the network or take electricity from the network.
- Section 88A - prohibits the operation of a distribution network unless authorised. The prohibition on operating a distribution network without a licence indicates a high barrier to entry.

Network services are delivered through the operation of assets such as substations, power lines, communication and control systems and involve activities such as repairs, maintenance, vegetation clearing, asset replacement or refurbishment and construction of new assets.

For the purposes of clause 6.2.1(d) of the Rules, standard network services are currently regulated as distribution services under a revenue cap form of control, which creates a presumption that they should continue to be classified as direct control services.

Further, as the costs of providing network services cannot be directly attributable to individual customers and other jurisdictions classify network services as a SCS, then the current classification remains appropriate.

5.2 Network Services Categories

Energex's comments in relation to the AER's proposed categories for network services are outlined in Appendix B of this response.

5.3 Emergency Recoverable Works

Emergency recoverable works are currently classified as a direct control service. The Rules clearly state that in classifying distribution services the AER "*must act on the basis that, unless a different classification is clearly more appropriate… there should be no departure from a previous classification*"[11]. This indicates that there is a relatively high threshold that must be met before the AER is justified in adopting a different classification. Energex does not believe that the AER has addressed adequately the factors that support a departure from the current classification.

Rather, there is a strong argument that emergency recoverable works should continue to be classified as a direct control service as:

- there is a regulatory barrier to a third party undertaking emergency recoverable works on Energex's network – there is no potential for competition[12]
- the party who caused the damage does not request that Energex perform emergency recoverable works[13]
- it is in the best interests of all customers connected to the shared network to ensure the damage is repaired as quickly as possible
- emergency recoverable works in other jurisdictions are currently classified as a direct control service[14]

Energex submits that in classifying emergency recoverable works, the AER is required by the Rules to focus on the distribution service being provided rather than on the recovery of costs mechanism. Therefore, whether Energex is repairing damage to the network caused by a storm or by a car should not be relevant to the AER for the purposes of classifying the service and as such the AER should not distinguish 'emergency recoverable works' from emergency response or corrective repair work (provided under network services).

[11] Clause 6.2.1(d), Clause 6.2.2(d)

[12] Clause 6.2.1(c)(1); National Electricity Law section 2F(a), (d)

[13] Clause 6.2.1(c)(1), National Electricity Law section 2F(g);

[14] Clause 6.2.2(c)(4). In Victoria, emergency recoverable works are currently classified as a direct control service and further as an ACS

In the NSW Stage 1 F & A Decision Paper and the Preliminary Positions paper for Energex and Ergon, the AER noted that emergency recoverable works are a distribution service and are analogous to emergency response works because a DNSP is required to carry out emergency recoverable works to ensure the safe and reliable supply of electricity to all customers. However, the AER decided in the NSW F & A, that emergency recoverable works are distinguishable from other network services because the costs of these works may be recoverable from the third party who caused the damage (where known) at common law. For this reason the AER decided not to classify emergency recoverable works for NSW DNSPs.[15]

Energex proposes that emergency recoverable works should remain classified as a direct control service. Energex argues that not classifying this service is clearly not appropriate considering the services that are being provided to all customers connected to the shared network.

[15] AER Stage 1 NSW F & A Decision March 2013 page 20

6 Metering Services

Energex supports the AER's assessment that type 6 metering services continue to be classified as a distribution service and a direct control service.

Energex notes the AER's proposal to reclassify type 6 metering services from a SCS to ACS

Energex supports the AER's proposal to continue the classification of SCS for type 7 metering installations

Energex supports the AER's recommendation to maintain the current classification of unclassified for type 1-4 metering installations

Energex does not support the AER's proposal to reclassify load control to align with metering services.

6.1 Overview

Chapter 10 of the Rules defines *metering* as 'recording the production or consumption of electrical energy'. Chapter 10 also defines *metering installation* as:

> *'The assembly of components including the instrument transformer, if any, measurement elements and processes, if any, recording and display equipment, communication interface, if any, that are controlled for the purpose of metrology and which lie between the metering points and the point at or near to metering points where the energy data is made available for collection.'*

Therefore, Energex assumes that the following components of a *metering installation* will also be captured by the proposed reclassification:

- Measurement element(s) (meters)
- Current and voltage instrument transformers (if required)
- Recording and display equipment
- Communications interface (if required).

However, Energex believes that as load control equipment is not specifically included in the definition of a *metering installation* then it should not be captured by the proposed reclassification of metering services.

'Metering services' are not explicitly defined in the Rules, but the AER is proposing to separate metering services in the following components:

- Meter provision service – the capital cost of purchasing the metering equipment
- Meter installation – the onsite connection of a meter at the customer's premises

- Meter maintenance – the works to inspect, test, maintain, repair and replace meters
- Meter reading – the quarterly or other regular reading of a meter
- Metering data services (which are defined in Chapter 10 of the Rules), as:
  - collation of energy data from the meter or meter/associated data logger
  - the processing of the energy data in the metering installation database
  - storage of the energy data in the metering installation database and the provision/ delivery of the data for those parties that have rights of access to the data[16]
  - management of relevant NMI Standing Data in accordance with the Rules

Metering services are distinguished by the type of metering installation, identified on the basis of the quantity of electricity flowing through the connection point (e.g. type 1-7 metering installations). In Queensland, there are no type 5 metering installations.

In relation to type 7 metering installations (unmetered), metering services are limited to data services and do not cover the installation, provision and maintenance of the unmetered device itself. In relation to type 7 metering services (e.g. street lights and traffic lights), distributors charge the customer (usually a local council or government agency) for the unmetered connection by estimating the usage based on standard data.

The AER's Preliminary Positions paper has indicated a preferred position to reclassify type 6 metering services from the current classification of SCS to an ACS, but retain a SCS classification for unmetered type 7 installations. Energex supports the AER's proposal to reclassify type 6 metering services to an ACS, but wishes to highlight a number of factors that must be considered by the AER under the Rules.

6.2 Current Regulatory Approach

Metering Services for type 6 and 7 metering installations are currently classified as a SCS and clause 6.2.2(d) of the Rules requires the AER to classify direct control services consistent with the classification in the current regulatory control period unless a different classification is clearly more appropriate. The AER's reasoning why it did not adopt an ACS classification for Energex's metering services for the current regulatory control period was that there was limited potential for competition (at that point in time) and that Energex rarely received requests from small customers to install a type 4 meter.

Despite the AER's proposed reclassification, it could be argued that the AER's reasoning for the current SCS classification remain valid for the next regulatory control period.

[16] The AER clarified in its Discussion Paper 'Classification of Metering Services in NSW' December 2012' that it considers that energy data services are a component of metering services.

6.3 Potential for Competition

In classifying a direct control service such as metering services as either a SCS or an ACS, the AER must comply with clause 6.2.2(c)(1) of the Rules which requires the AER to have regard to the potential for development of competition and how the classification might influence that potential.

It is arguable that the market environment has not changed since the AER previously considered the potential for competition for metering services, particularly as clause 7.2.3(a)(2) of the Rules continues to provide that Energex as the Local Network Service Provider (LNSP) is the Responsible Person for a type 5-7 metering installation.

The classification to an ACS may not influence the potential for competition but it is assumed that future regulatory reforms (e.g. Power of Choice review) will remove the Responsible Person legislative obligations from Energex as the LNSP. However, as Power of Choice Rule changes have not been implemented at this point in time, Energex assumes that it will continue to be the Responsible Person for types 5-7 metering installations and that there will be no potential for competition until such legislative amendments are made.

In relation to type 7 metering services, Energex is the monopoly provider in South East Queensland and there is limited incentive for third parties to enter the market for such services. Therefore, Energex agrees that there is limited or no potential for the development of competition in the provision of type 7 metering services.

6.4 Administrative Costs

In classifying a direct control service such as metering services as either a SCS or an ACS, the AER must comply with clause 6.2.2(c)(2) of the Rules, which requires the AER to have regard to the possible effects of the classification on administrative costs of the AER, the DNSP and users or potential users.

Should the AER reclassify metering services to an ACS, then Energex will incur one-off administrative costs (e.g. implementing billing system changes to ensure that customers are invoiced correctly).

6.5 Load Control

The current classification of metering services for Queensland specifically includes the ‘commissioning of metering and load control equipment’ and ‘maintaining and repairing meters and load control equipment’. However, with the proposed reclassification of metering services, Energex believes it is timely to consider the most appropriate classification for the provision of load control.

Energex has been operating hot water load control as part of its business as usual operations for many years. This load control system involves a range of assets across the network designed to signal load control relays to manage hot water loads at times of peak demand. In activating this control, Energex is able to manage peak demand, reducing the

need for costly growth driven augmentation of the network. Currently, more than 60% of our residential customers participate in load control programs, providing significant load management capability across the network. These loads are able to be removed from localised peaks, and if this control is eroded or removed, then this would result in the need to build additional capacity to cater for the related increase in peak demand. Load control is an important tool in network management and provides benefits to all consumers in the form of improved utilisation of network assets.

As part of Energex's demand management initiatives and pricing strategy, specific tariffs are offered to restrict supply at certain times, allowing Energex to manage the related appliance loads on the network. The supply is managed through control relays, which exist as either a secondary device or in limited circumstances, can be incorporated in the meter. These load control relays form the end link in Energex's robust load control system (including signal injection and load management assets) which has been applied for many years to facilitate management of peak loads across the Energex network.

Referring to the definition of 'metering installation' in the Rules (see above section 6.1), it is arguable that load control relays or time switches are not a component of a metering installation and as such, are incorrectly included in metering services. This is because a metering installation is an assembly of components "that are controlled for the purposes of metrology". However, the Rules clearly define a 'network service' as a 'distribution service associated with the conveyance, and controlling the conveyance, of electricity through the network.' Control relays should be regarded as "controlling" the conveyance of electricity through the network. The significant point is that control relays do not provide a metering service.

The AER is required to act on the basis that unless a different classification is clearly more appropriate, then the previous classification should be retained. The current classification for load control is SCS. Energex notes that the AER has proposed the following load control activities in Appendix B of the Preliminary Positions paper:

- Network Services (operating the network) – scheduling and controlling the switching of controllable load for network purposes. This service is proposed to be classified as a SCS. Energex supports this classification.

- Metering Services (meter maintenance) – load control relay maintenance. This service is proposed to be classified as an ACS. Energex does not support this classification for the reasons outlined below.

- Auxiliary Metering – install load control. This service is proposed to be classified as an ACS. Energex does not support this classification for the reasons outlined below.

There are a number of considerations which the AER should be mindful of when classifying load control services.

Firstly, the classification of an ACS presumes that the customer should pay for the load control equipment because they receive the full benefit of their load being restricted, which is not necessarily the case. For some customers, the value of their load control to the network will be significant, while for others, the value will be negligible, depending on the constraints

in their local network area. Because of this, the value of load control is difficult to quantify and will vary over time. As a result, the benefits of controlling load tend to be shared as both a direct tariff rebate to the customer in the form of discounted tariffs with the residual benefit flowing through as a reduction in overall network expenditure, which is shared amongst all customers.

Secondly, to classify load control as an ACS introduces a potential distortion and disincentive in the demand management market. Currently, DNSPs are encouraged and incentivised to assess the costs and benefits of network and non-network alternatives. Both of these solutions are currently funded via DUOS. But should load control (as a demand management solution) be classified as an ACS then this would potentially discourage the customer from adopting the non-network alternative. If non-network demand management solutions are to be genuinely considered as substitutes for network investments, the funding models need to be aligned.

Thirdly, while in some circumstances load control can be integrated with the metering installation, it can also be installed completely separate of the metering infrastructure and assets.

Fourthly, there is limited if any opportunity at this point in time, for competition in the provision of load control services.

Finally, Energex notes that the AER proposes to classify the service of responding to cold water complaints as a network service (SCS). Many of Energex's responses to cold water complaints are related to faulty operation of load control equipment.

6.6 Instrument Transformers

Current transformers (CTs) and voltage transformers (VTs), are used for metering, protection and control functions within Energex and the National Electricity Market (NEM), and are sometimes collectively called Instrument Transformers to differentiate them from power transformers.

As mentioned above, the definition of 'metering installation' in the Rules refers to instrument transformers. CT metering is required when the customer's load exceeds 100 amps per phase as this is the limit of Direct Connected (DC) meters (also known as Whole Current meters). The CT provides a smaller current, which is directly proportional to the load current and is easier to meter.

VT metering is required when the customer's connected voltage exceeds Low Voltage, which is 240V/415V, and is classified as High Voltage (HV) (typically 11kV, 33kV). All HV sites have both VTs and CTs and these can be provided in a single unit known as a HV Metering Unit (MU).

Customers can provide their own CTs and VTs as part of their switchgear; however, the most common arrangement is a HV MU that is owned, installed and maintained by the distributor as a connection asset. Customer-provided instrument transformers must have valid test certificates and results that are to be provided to the Responsible Person.

In Appendix B of the AER's Preliminary Positions paper, the AER has proposed that the provision of Low Voltage Current Transformers be classified as an ACS under the Auxiliary Metering Services group.

Energex recommends that this service description be amended to *the provision, installation, testing and maintenance of instrument transformers for metering purposes*. This wording clarifies that the ACS classification only applies to instrument transformers provided for metering purposes.

7 Connection Services

Energex requests that the AER reclassify small customer connections from a SCS to an ACS.

Energex requests that the AER reclassify large customer connections from an ACS to Unclassified.

7.1 Overview

Chapter 10 of the Rules defines connection services as consisting of *entry services* and *exit services*. An entry service is a service provided to serve a generator or group of generators, or a network service provider or group of network service providers at a single connection point. An exit service is a service provided to serve a distribution customer or a group of distribution customers, or a network service provider or group of network service providers, at a single connection point.

In relation to the provision of connection services, Energex must comply with the *Electricity Act 1994 (Qld)*, which includes:

- Section 40 – a customer may make an application (a connection services application) to a distribution entity
- Section 40A – the distribution entity to whom the application is made must provide the customer connection services (connection obligation) subject to conditions outlined in section 40D
- Section 40DB (2) – the customer and the distribution entity are taken to have entered into a standard connection contract for the provision of customer connection services
- Section 40E – provides limitations on the connection obligation
- Section 43 – it is a condition of a distribution authority to allow, as far as technically and economically practicable, a person to connect supply to the supply network, or take electricity from the supply network, on fair and reasonable terms

Alternatively, Energex must comply with Chapter 5 of the Rules in relation to the provision of connection services if the connection applicant is a Registered Participant or the connection applicant specifically requests a connection under Chapter 5 of the Rules.

At this point in time, Queensland has not enacted the National Energy Customer Framework (NECF) legislative package which would require Energex to comply with Chapter 5A of the Rules in relation to connecting retail customers. There is also no certainty at this point in time, as to when or if NECF will be introduced in Queensland. Therefore, at this stage, Energex is not required to comply with the AER's Connection Charging Guidelines or the requirement for a connection policy. However, should NECF be introduced before the next

regulatory control period (i.e. 1 July 2015) then Energex will submit a connection policy with its Regulatory Proposal consistent with proposed changes to the classification of connection services.

7.2 Current and Future Regulatory Approach

In the 2010-15 Determination, the AER classified connection services as a SCS, except for large customer connections, which was classified as an ACS in the quoted services group. The definition for large customer connections is as per the Energex Pricing Proposal[17]:

> *From 1 July 2010, for new or upgraded connections (requested by a customer) of greater than 1 MVA or 4 GWh per annum (that is tariff class EG, CAC or ICC), the design and construction of the connection assets is a quoted service…*

The commissioning, operation and maintenance of all connection assets, including large customer connections is currently classified as a SCS. However, the AER is proposing that for large customers, the commissioning and energisation should be an ACS.

Clause 6.2.2(d) of the Rules creates a presumption that where a service is currently classified, that classification should continue unless a different classification is clearly more appropriate. In the case of large customer connections, Energex is proposing that the market has developed sufficiently to satisfy a reclassification to unclassified, as discussed further below.

In relation to small customer connections, Energex is proposing a reclassification to an ACS as discussed further below.

7.3 Potential for Competition

In classifying a direct control service such as connection services as either a SCS or an ACS, the AER must have regard to clause 6.2.2(c)(1) of the Rules which requires the AER to have regard to the potential for development of competition and how the classification might influence that potential.

In the case of Energex's large customer connections, the current ACS classification has clearly contributed to the development of competition as discussed further below.

The decision whether to reclassify small customer connections should not be solely determined by the potential for competition, rather there are a number of factors such as the requirement in clause 6.2.2(c)(4) of the Rules to align with similar services (e.g. metering) and to facilitate a more transparent user-pays approach, which will only lead to increased competition.

[17] Pricing Proposal 2013/14 page 59

7.3.1 Large Customer Connections

Energex has accredited 17 consultants, who may undertake the design and construction of connection assets for large customers (a full list of these service providers is available on Energex's website)[18].

In the short period of time (i.e. since 1 July 2010) since large customer connections were reclassified as an ACS, the number of third party consultants providing the design and construction services has slowly been increasing. Over 2010/11 and 2011/12, 17 large customer connections were commissioned with 11 of these connections designed and constructed by Energex. In 2012/13, 34 large customer connections were commissioned with 22 undertaken by Energex. And in 2013/14, to date, Energex has constructed 7 out of a total of 19 large customer connections.

Energex believes that these figures demonstrate effective competition for the design and construction of large customer connections, which should be a significant driver for the reclassification of large customer connections to unclassified, particularly as:

- Large customers possess sufficient choice and information or are well resourced to obtain independent advice in order to negotiate on an equal basis with all providers of connection services
- There are limited barriers to entry from third party providers
- Any market power possessed by Energex is mitigated by the countervailing power possessed by large customers

The AER has noted that a Negotiated services classification may be a suitable alternative (rather than unclassified) and will provide customers with sufficient confidence that the prices offered by distributors will be efficient. Energex would argue, that with 17 accredited service providers in the market, there is already sufficient competition to provide customers with the confidence that prices are efficient. Therefore, a reclassification to Negotiated services would not provide any real change to benefit customers than the current classification provides. Should the AER not accept a reclassification to unclassified then Energex would argue that the current ACS classification should be retained.

7.3.2 Small Customer Connections

The AER has noted in the Preliminary Positions paper that the Queensland government's legislative approach prevents alternative service providers from providing connection services to small customers.[19] Energex would disagree with this observation, as Queensland legislation does not distinguish between small and large customers in relation to who may design and construct connection assets, and as noted above, large customers are

[18] http://apps.energex.com.au/upload/technical_documents/20130630_115217_7931787.pdf

[19] AER Preliminary Positions Paper for Framework and Approach for Energex and Ergon December 2013 page 26

currently classified as ACS. However, Queensland legislation does include the following provisions:

Electricity Act 1994

- Section 230 – prohibits a person from wilfully and unlawfully interfering with an electricity entity's works
- Section 232 – prohibits a person from unlawfully connecting or disconnecting the supply of electricity to a customer or interfering with the supply of electricity to a customer.

Electrical Safety Regulation 2013

- Section 212 - Termination of low voltage overhead service line. An electricity entity must ensure a low voltage overhead service line is secured to a consumer's premises, including poles on the premises, insulated continuously and not readily accessible to persons.
- Section 217 - Electrical installation with serious defect not to be connected to electricity source. If an electrical installation has a serious defect, a person must not connect the installation to a source of electricity for use for its intended purpose.
- Section 218 - Electrical installation not to be connected to electricity source if work not tested. A person must not connect an electrical installation on which electrical work has been performed to a source of electricity unless the person who performed the electrical work was authorised under the Act to perform it and the electrical installation, to the extent it is affected by the electrical work, has been tested to ensure it is electrically safe and complies with the requirements of the wiring rules.
- Section 219 - Electrical installation not to be initially connected to electricity source without examination and testing. A person must not connect an electrical installation to a source of electricity supplied by a distribution entity for the first time unless the distribution entity has examined the consumer mains and main switchboard for the electrical installation and confirmed there are no serious defects and carried out tests to ensure the consumer mains and main switchboard are electrically safe.

Therefore, there are regulatory and legislative arrangements in Queensland that require Energex to undertake the switching, commissioning and energisation of connection assets connecting to its network, but there is no legislated monopoly over the design and construction of connection assets. Energex believes that a reclassification for small customer connection to ACS, will facilitate the transition to a user-pays approach and the future development of competition for the design and construction of small customer connection assets.

7.4 Administrative Costs

In classifying a direct control service such as connection services as either a SCS or an ACS, the AER must have regard to the possible effects of the classification on administrative costs to the AER, the DNSP and users or potential users.

A change in classification would potentially increase administrative costs in the following ways:

- Energex would need to revise its billing and financial systems and processes. However, Energex currently provides a number of non-standard connection services, which are already classified as an ACS.
- As a SCS, there are administrative costs on the DNSP in estimating the volume of connections and recovery of capital contributions and making adjustments when customer-requested works are higher or lower than anticipated. This volume risk would be removed with an ACS classification.

7.5 Consistent Approach

In classifying a direct control service such as connection services as either a SCS or an ACS, the AER must comply with clause 6.2.2(c)(4) of the Rules, which requires the AER to have regard to the desirability of a consistent regulatory approach to similar services (both within and beyond the relevant jurisdiction).

There are significant variations between jurisdictions in terms of legislative and regulatory frameworks and consequently the classifications applied to connection services, which makes it difficult to apply a consistent approach across jurisdictions.

However, in relation to applying a consistent approach across similar services, Energex would argue that the AER's justification for reclassifying metering services is similarly applicable to small customer connections.

7.6 Costs Directly Attributable to Particular Customers

In classifying connection services as either a SCS or an ACS, the AER must comply with clause 6.2.2(c)(5) of the Rules, which requires the AER to have regard to the extent to which the costs of providing connection services can be directly attributable to the particular customer requesting that service. It is for this reason that Energex supports the reclassification of commissioning and energisation of large customer connections and accreditation of alternative service providers as an ACS.

7.7 Energex's Proposed Classification

Energex is proposing that small customer connections be reclassified to an ACS. An ACS classification should still be considered even if the Queensland government does not in the short term, indicate or provide for a legislative framework for competition or contestability of

small customer connections. This argument aligns with the AER's reasoning for classifying ancillary network services as an ACS:

> *We intend to classify ancillary network services as alternative control because they are attributable to individual customers. We adopt this view even though ancillary network services do not exhibit signs of competition or potential for competition.*[20]

In relation to large customer connections, Energex is proposing that these services are ready to be unclassified as evidenced by the active participation by third parties and countervailing power demonstrated by large customers.

7.8 Subdivisions and Real Estate Developers

Under the current Capital Contribution policy, developers of subdivisions are responsible for all costs (inside the development and upstream augmentations) associated with supplying electricity to lots within the development. The commissioning and energisation of subdivisions are currently classified as a SCS.

If the NECF comes into effect in Queensland by the commencement of the next regulatory control period (i.e. 1 July 2015), Energex will be required to apply the AER's Connection Charging Guidelines. Under these Guidelines, Energex assumes that developers would no longer pay the full costs of connecting. To ensure that developers continue to pay upfront for any costs associated with an extension or augmentation of the network, Energex proposes that the connection services provided to developers should be separately distinguished from small customer connections and large customer connections. Energex proposes that an ACS classification should be applied to developers of subdivision because the costs are directly attributable to the real estate developer requiring the connection.

7.9 AER's Proposed Categories of Connection Services

Appendix B of the AER's Preliminary Positions paper outlines the AER's proposed categories of services together with the proposed classification. Energex's comments are provided in Appendix B of this response.

[20] AER Preliminary Positions Paper for Energex and Ergon Framework and Approach December 2013 page 37

8 Street Lighting Services

Energex supports the AER's preliminary position to retain the current classification of ACS for street lighting services

8.1 Overview

Energex currently serves 12 street lighting customers (11 local councils and the DTMR) with approximately 350,000 street lights installed. There are currently three ways in which new street lights can be developed in Queensland:

- The responsible party can ask Energex to provide, construct and maintain the street lighting assets
- A party other than Energex, such as a developer, can provide and construct the street lighting assets and transfer them to Energex to own and maintain
- The responsible party can construct and maintain the street lighting assets themselves, in which case Energex has no involvement in the provision and maintenance of those street lights, although it is responsible for delivering energy to the customer's street lighting asset using its distribution network.

In the majority of instances, the first two options are the preferred arrangement, which may indicate a reluctance of local councils to take on the responsibility of ensuring street lighting maintenance complies with applicable standards.

The bundled price that customers are charged for street lighting services consists of both SCS and ACS. The conveyance of electricity to street lights is a SCS, while services relating to the provision, construction and maintenance of street lighting assets are currently classified by the AER as an ACS. The provision, construction and maintenance of street lighting was classified as an ACS on the basis that there was potential for competition to develop and that the costs were directly attributable to the user[21].

The Rules provide that the previous classification should prevail unless the AER has compelling evidence that the basis for the previous classification no longer holds. Based on this Rule requirement, Energex believes that there is no compelling reason to justify a departure from the current classification.

8.2 Current Legislative Framework

Energex has a legislative obligation to connect street light customers to the network but the provision of street lighting services in Queensland is currently characterised by:

[21] AER, Final Decision – Framework and Approach paper, Classification of services and control mechanisms, Energex and Ergon Energy 2010-15, August 2008 pg 21.

- No legislated service standards
- No legislative instrument setting out the roles and responsibilities of street lighting service providers and the relationship between DNSPs and customers
- The lack of a legislated contestability framework that authorises third party providers
- A mix of non-binding operating codes and policies

The principle source of service standard obligations for street lighting in Queensland is the *Australian Standard AS/NZS 1158 – Lighting for Roads and Public Spaces* and the *Australian Standard AS/NZS 3000 – Wiring Rules.* Neither of these Australian Standards are mandatory but may be called upon by authorities as best practice guidelines. In addition, Energex provides street lighting services in accordance with the *Electrical Safety Act's Code of Practice – Working Near Exposed Live Parts.*

The conditions regarding the design, installation and maintenance of street lighting assets are set out in Energex's policy document *Public Lighting – Standard Conditions for Public Lighting Services.* The design, installation and maintenance of street lighting assets can be and is undertaken by third party contractors as well as Energex. However, the majority of street lighting assets in South East Queensland are owned and maintained by Energex.

8.3 Proposed Classification

The AER is seeking stakeholder feedback on the potential to classify street lighting services as a Negotiated service.

Energex supports the AER's assessment in that, while there is no legislative monopoly over these services, a monopoly position exists, primarily due to the legislative framework outlined above. And while there are a number of larger sized councils in Energex's network area who are experienced in procuring and negotiating services, Energex is concerned that there are also a number of small sized councils who are not similarly resourced and would have limited negotiating power.

In addition, Energex has serious concerns over the inefficiency and administrative costs that would arise in having to negotiate with 12 street lighting customers individually.

Therefore, Energex supports the AER's preliminary position to classify street lighting services as a direct control service, and further as an ACS. This position has been developed following consultation with local councils, the Local Government Association of Queensland and the DTMR, as outlined in section 3 of this response.

9 Ancillary Network Services

Energex supports the AER's preliminary position to retain the current classification of ACS for ancillary network services

Energex requests that the AER reinstate a number of omitted services as ancillary network services or clarifies how it will allow for cost recovery of these services.

9.1 Overview

The AER has proposed to rename the current 'fee based' and 'quoted services' under the one banner of 'ancillary network services'. Energex supports this change in terminology as it correctly refers to the services being provided rather than the charging arrangements. Appendix A outlines the range of services that are provided by Energex in the current regulatory control period as either a 'quoted' or 'fee-based' service.

9.2 Removal of Existing Services

The AER is proposing to remove altogether from the list of ancillary network services, a number of services that are currently provided as either 'fee based' or 'quoted', in particular:

- After hours provision of a service
- Additional crew
- Fault response
- Wasted attendance

The AER has not outlined in the Preliminary Positions paper its reasons for removing these services. However, Energex understands that the AER does not believe that these are 'services' but rather a by-product or component of the delivery for other services.

Given that ACS are intended to be charged on a cost reflective basis (not least to allow customers to compare the cost of providing the service to their needs and wants), it would be expected that the additional costs associated with after hours work, additional crew, fault response or wasted attendance should be allowed to be included in the price and recovered directly from the customer to which those costs relate. However, how this is to occur is not clear.

Energex seeks confirmation that it will continue to have the ability to charge for these activities even though they are not separately classified. Therefore, Energex proposes that the AER either reinstates the omitted services as ancillary network services or clarifies how it will allow Energex to recover the costs of providing these services.

9.3 Proposed New Services

The AER is proposing to limit ancillary network services to two categories:

- Services provided in relation to a retailer of last resort
- Other recoverable works

Energex supports the inclusion of the first service relating to recovery of Energex's costs in the unlikely event that a retailer of last resort event should occur. In relation to the second category, Energex wishes to highlight that the nature of 'other recoverable works' should not be to limit the activities that may be captured. Rather, the description of activities proposed by the AER under this category should be considered as examples of the types of 'other recoverable works' and therefore Energex would recover its costs on a quoted basis.

10 Unregulated and Unclassified Services

Energex requests that the AER reclassify Large Customer Connections from an ACS to Unclassified

10.1 Overview

Services that are neither direct control nor Negotiated, can be characterised as either:

- Distribution services that are being supplied in a competitive market and therefore are not required to be classified; or
- Non-distribution services and therefore unregulated

Energex notes that the AER has clarified in the Preliminary Positions paper those services which fall within the category of 'unregulated' non-distribution services versus those that are distribution services but unclassified. The factors to be considered in determining whether a service is a 'distribution service' or not, are discussed in section 4 of this response.

However, Energex notes that high load escorts is absent from the AER's list in Appendix B of the Preliminary Positions paper. The previous F & A concluded that high load escorts was a distribution service but should be unclassified.[22] Therefore, Energex submits that this activity should be included as an unclassified service.

10.2 Large Customer Connection Services

Energex submits that the design and construction of large customer connections should be reclassified from ACS to Unclassified for the reasons outlined above in section 7.3. Large customer behaviour in the current regulatory control period indicates that there is sufficient countervailing market power and competition from third parties to warrant a reclassification to unclassified.

In addition, Energex accepts the AER's proposal to include a new unregulated service that relates to the contracting of services to large customers for the operation and maintenance of connection assets owned by the large customer.

[22] AER Final Decision Framework and Approach Classification of Services and Control Mechanisms Energex and Ergon Energy 2010-15 page 26

11 Negotiated Distribution Services

Energex is not requesting any services to be reclassified as Negotiated services

Energex is proposing that it is not required to submit a Negotiating Framework with its Regulatory Proposal

In the F & A Preliminary Positions paper, the AER has sought feedback as to whether large customer connections and street lighting services should be reclassified from ACS to Negotiated Services.

As discussed above in section 8, Energex does not support a reclassification of street lighting services to Negotiated services.

As discussed above in section 7 and 10, Energex believes that the design and construction of large customer connections should be reclassified to Unclassified and therefore does not support a reclassification to Negotiated.

Energex is not proposing any distribution services should be classified as Negotiated services and requests that the AER clarify in the F & A that a Negotiating Framework is not required to be submitted as part of Energex's Regulatory Proposal.

12 Control Mechanisms

Energex supports the AER's proposal for the form of control mechanisms to be:

- **A revenue cap for standard control services**
- **A price cap for alternative control services**

Energex proposes that the control mechanism applicable to direct control services may need to take into account the new return on debt provisions in clause 6.5.2 of the Rules.

Energex proposes that the AER's proposed formulae for ACS should apply for metering and street lighting services and the current ACS formula for quoted and fee based services should continue to apply to those services charged on a fixed fee or quoted basis.

Energex is concerned that the proposed formulae are represented in an overly complicated and mathematical manner, and should be presented in a more customer friendly approach.

12.1 Overview

The AER's consideration of the control mechanisms for direct control services has three components:

- The form of control mechanism
- The formulae to give effect to the control mechanism
- The basis of the control mechanism

Clause 6.8.1(b)(1) of the Rules states that the AER must set out its decision on the form of control in the F & A and clause 6.12.3(c) of the Rules states that, in making a distribution determination, the AER must adopt the form of control mechanisms that are set out in the AER's F & A. Furthermore, clause 6.8.1(b)(2) of the Rules states that the AER must set out in the F & A its proposed approach for the formulae that will give effect to the control mechanisms. Clause 6.12.3(c1), however, states that the formulae that give effect to the control mechanisms must be as set out in the F & A unless the AER considers that unforeseen circumstances justify departing from the formulae.

The choice of control mechanism has important implications for:

- the incentives of network businesses to set cost-reflective prices
- the ability of network businesses to recover more than the maximum allowable revenue
- the incentives for network businesses to pursue demand management
- the stability of prices from year to year

- whether network businesses or customers bear the pricing risk associated with changes in demand.

Recently, with the interest on network businesses and electricity prices, there has been considerable debate on the most appropriate control mechanism, with particular focus on the advantages and disadvantages of a revenue cap versus a weighted average price cap. The Productivity Commission's *Electricity Network Regulatory Framework Inquiry Report* recommended that the AER should use revenue caps, rather than a weighted average price cap, in the regulation of all distribution businesses.[23]

The basis for the control mechanism for standard control services must be of the prospective CPI minus X (CPI-X) form, or some incentive-based variant of the CPI-X form, in accordance with Chapter 6, part C of the Rules. Clause 6.2.6(b) of the Rules provides that the control mechanism for alternative control services must have a basis as stated in the distribution determination and is therefore not relevant at this point in time as part of the F & A.

12.2 Form of Control Mechanism - Standard Control Services

In deciding on a control mechanism to apply to SCS, clause 6.2.5(c) of the Rules requires the AER to have regard to the:

- Need for efficient tariff structure
- Possible effects of the control mechanism on administration costs of the AER, the DNSP and users
- Regulatory arrangements applicable to the relevant service immediately before the commencement of the determination
- Desirability for consistency between regulatory arrangements for similar services (both within and beyond the relevant jurisdiction)

In the recent NSW F & A process, the AER included the following factors in addition to those listed above:

- Volume risk and revenue recovery
- Price flexibility and stability
- Incentives for demand side management

Energex's SCS are currently subject to a revenue cap and Energex supports the AER's Preliminary Position to continue with the revenue cap form of control and agrees that a revenue cap best meets the factors listed above.

[23] The Productivity Commission *Electricity Network Regulatory Framework Inquiry Report* 26 June 2013 page 479

12.3 Formulae for SCS Control Mechanism

The Rules indicate that the control mechanism formulae, as set out in the F & A, can only be departed from if justified by unforeseen circumstances. This creates a strong incumbency on the control mechanism positions set out in the F & A, and therefore it is important that the F & A cover all matters relevant to the control mechanism under the new Rules.

Energex considers that there are two important matters relevant to the control mechanism formulae arising from the new Rules and AER Better Regulation Rate of Return Guideline, which should be addressed in the AER's F & A.

Firstly, the current control mechanism formulae applicable to direct control services needs to take into account the new return on debt provisions in clause 6.5.2 of the Rules. Energex notes that the AER's Rate of Return Guideline proposes to use a trailing average portfolio approach to estimate the allowed return on debt. Further, the AER proposes to update the return on debt estimate annually via a formula. In the explanatory notes to the Rate of Return Guideline, the AER indicated that the process of automatic updating of the return of debt calculation will be set out in the relevant Network Service Providers' determinations. Energex supports the ability to annually update the return on debt through appropriate adjustments to control mechanism formulae for direct control services.

Secondly, Energex believes that the control mechanism should be adjusted to mitigate a risk which arises from the current control mechanism formulae. Energex currently faces uncompensated risk on the inflation component of its return on debt allowances. Energex is compensated for actual inflation on SCS revenue allowances through the formulae:

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

However, Energex bears forecast inflation on the issue of nominal bonds. Energex has entered into a Coupon Indexed CPI Swap to receive fixed interest payments and make payments that are indexed annually to the CPI to mitigate this risk. The AER currently provides no compensation for this "mismatch" risk, which purely arises from the current control mechanism formulae, nor compensation for the cost of entering the inflation swap. Energex considers that the control mechanism formulae should be reviewed in consideration of the costs and benefits of this outcome for Energex and our customers.

Furthermore, the AER has proposed in the formulae an adjustment for revenue and pricing controls as a result of the expiry of transitional arrangements. Such transitional arrangements should include:

- The treatment of capital contributions in calculating the Annual Revenue Requirement
- The treatment of solar feed-in tariffs
- Revenue adjustments for the carry forward of over-recovery or under-recovery of revenue for this period

12.4 Form of Control Mechanism -Alternative Control Services

Clause 6.2.5(d) of the Rules requires that the AER must have regard to the following in relation to the decision making process for a control mechanism for ACS the:

- Potential for development of competition and how the control mechanism might influence that potential
- Possible effects of the control mechanism on administrative costs of the AER, DNSP and users
- Regulatory arrangements applicable to the relevant service immediately before the commencement of the determination
- Desirability of consistency between regulatory arrangements for similar services

Energex supports the AER's Preliminary Position to apply caps on the prices of individual services for:

- Street lighting services
- Ancillary network services
- Metering services

12.5 Formulae for ACS Control Mechanism

Energex is concerned about the AER's proposed control mechanism formula for ACS particularly as it applies to quoted services. The AER proposes to apply the following formula for services classified as ACS:

$\overline{p}_i^t \geq p_i^t$ i=1,...,n and t=1,2,3,4

$\overline{p}_i^t = \overline{p}_i^{t-1}(1+CPI_t)(1-X_i^t)+A_i^t$

Where:

$\overline{p}_i^t$ is the cap on the price of service i in year t

p_i^t is the price of service i in year t

CPI_t is the percentage increase in the consumer price index. To be decided upon in the final decision.

X_i^t is the X-factor for service i in year t. To be decided upon in the final decision.

A_i^t is an adjustment factor. Likely to include, but not limited to adjustments for residual charges when customers choose to replace assets before the end of their economic life.

12.5.1 Services charge on a fixed fee or quoted basis

The AER indicated that for services charged on a quoted basis, where the price is derived from one or more input prices, the price that relates to the input cost is substituted for the term $\overline{p}_i^t$. Energex considers that the proposed formula will result in a schedule of price caps for those services charged on a fixed fee basis and a schedule price caps on the different inputs used in the provision of services based on a quote, adjusted annually by CPI and an X-factor.

Energex notes that the AER's proposed formulae represents a departure from the costs build-up approach and formula applicable in the current regulatory control period for fee-based and quoted services, which is:

Price = (Labour + Contractor Services + Material)(incl. Overheads) + Capital Allowance + GST

A schedule of fixed prices for ACS is appropriate where underlying costs are expected to follow a specific price path. While this applies to labour costs, Energex considers this to be problematic for other costs such as contractor services, materials and overheads. For example, under Energex's cost allocation methodology; overhead rates are periodically adjusted to ensure cost reflectivity for all of Energex's services. It is impossible to accurately forecast volumes of regulated services, particularly customer-driven services such as ACS. Consequently, it is impossible to reliably and accurately forecast overhead allocation rates. A fixed glide path for overhead costs/rates could potentially result in Energex recovering (suffering) significant windfall gains (losses) where the rates forecast at the time of the reset differ materially from out-turn rates.

With regards to quoted services, given that the nature and scope of work is specific to the customer, Energex does not consider it appropriate to have a price cap as proposed in the formula on individual cost inputs (e.g. materials, contractors). For example, various types of materials with significantly different costs, are used in the provision of quoted services. In the provision of 'rearrangement of network assets' materials used depend on the location (CBD, urban or rural), whether underground or overhead and other environmental factors. Different transformer types and sizes, pole types, conductors, switchgear etc can be used and the costs of these materials can range from less than a hundred dollars to tens of thousands of dollars per unit. In 2012-13 period, Energex issued in excess of a thousand different types of materials to provide ACS. .

If the proposed formulae were implemented, Energex expects that the AER would need to approve in excess of a thousand price caps to account for the different types of materials and other variable inputs that can possibly be used in the delivery of ACS. Energex considers that this will impose unnecessary administrative burden on both Energex and the AER. Energex's material rates are updated in real time in its corporate systems and Energex utilises an average cost approach to minimise the effects of price variations and mitigate the administrative complexity of managing multiple stock items for all services.

The AER's proposed formulae would require significant change to Energex's corporate costing and billing systems to allow for the application of predetermined fixed prices for inputs specific only to the delivery of ACS.

Energex's procurement process ensures that all contracts for the acquisition of goods and services are established to ensure an efficient price is paid and a prudent outcome is achieved. The procurement process involves the establishment of a panel of prospective suppliers through an initial competitive market tender process. When subsequently sourcing goods or services from the successful panel of suppliers, further bids are sought on a case-by-case basis to ensure competitive market prices are ultimately obtained.

Given the above implications and to ensure consistency, Energex proposes that for those services that will be charged on a fixed fee or quoted basis, the AER should retain the current cost-build up approach, which consists of:

- A schedule of capped prices for those charged on a fixed fee-basis for the first year of the regulatory control period;
- A schedule of capped formula component rates for those charged on an indicative quoted basis for the first year of the regulatory control period; and
- an annual escalation process for the individual formula components, allowing for the pass-through of the costs for variable inputs, for the remaining years of the regulatory control period.

This approach will result in more cost reflective prices for customers and limit the administrative burden and system modification costs.

12.5.2 Street Lighting Services, Reclassified Metering Services and Small Customer Connection Services

For street lighting services, Energex proposes a continuation of the current price cap control mechanism. Prices are determined using the limited building block approach in the first year of the regulatory control period and a price path for the remaining years of the regulatory control period consistent with the AER's proposed ACS pricing formula.

Energex proposes that this approach would also be applied for metering services and small customer connection services (assuming they too are reclassified to an ACS)

13 Incentive Schemes

In principle, Energex supports the AER's Preliminary Position to apply the:

- **Service Target Performance Incentive Scheme**
- **Efficiency Benefit Sharing Scheme**
- **Capital Expenditure Sharing Scheme**
- **Demand Management Incentive Scheme**

Clause 6.3.2(a)(3) of the Rules requires that a building block determination is to specify for a regulatory control period how any applicable efficiency benefit sharing scheme (EBSS), capital expenditure sharing scheme (CESS), service target performance incentive scheme (STPIS), or demand management incentive scheme (DMIS) is to apply to the DNSP.

Energex acknowledges the importance of the incentive schemes that are currently applied. However, increases in electricity prices in recent years have resulted in an unprecedented policy response at both the State and Federal level. The policy initiatives (outlined further in section 2 of this response) have significantly affected incentive arrangements for Energex in both the current and forthcoming regulatory control period.

Energex believes that the focus on reducing future electricity prices and the feedback from customer engagement, justifies 'low powered' incentive schemes being applied for the 2015-20 regulatory control period.

13.1 Service Target Performance Incentive Scheme (STPIS)

13.1.1 Overview

The STPIS provides financial incentives for DNSPs to maintain and improve service performance. Through the s-factor component of the STPIS, DNSPs are penalised or rewarded for diminished or improved service performance compared to predetermined targets.

Energex appreciates that the narrow focus of the STPIS is predominantly on the 'average' customer and as such Energex proposes to address this limitation through its work program and in developing its Regulatory Proposal.

In implementing the STPIS, the AER must take into account the following criteria provided for in clause 6.6.2(3) of the Rules:

- The need to ensure that benefits to consumers likely to result from the scheme are sufficient to warrant any reward or penalty under the scheme
- The past performance of Energex
- Any current regulatory requirements or obligations to which Energex is subject

- Any other incentives available to Energex
- The need to ensure that the incentives are sufficient to offset any financial incentives Energex may have to reduce costs at the expense of service levels
- The willingness of Energex's customers to pay for improved performance in the delivery of services
- The possible effects of the scheme on incentives for implementation of non-network alternatives

In implementing the STPIS, the AER must also:

- Consult with the authorities responsible for the administration of relevant jurisdictional electricity legislation
- Ensure that service standards and service targets (including GSLs) set by the scheme do not put at risk the DNSP's ability to comply with relevant service standards and service targets (including guaranteed service levels) as specified in jurisdictional electricity legislation

13.1.2 Current Application

For the current regulatory control period, the STPIS applicable to Energex incorporates the system average interruption duration index (SAIDI) and system average interruption frequency index (SAIFI) reliability of supply parameters. These parameters apply to Energex's CBD, urban and short rural network segments, with an overall revenue at risk of ±2 per cent. The MAIFI parameter is not currently applied, as Energex did not have the data gathering capacity to measure momentary interruptions. Energex is required to report against the telephone answering customer service parameter, for which no financial incentive applies.

13.1.3 Customer and Stakeholder Feedback

In relation to the willingness of Energex's customers to pay for improved performance and the delivery of services, Energex has obtained some initial feedback through its customer engagement program, which is outlined in section 3 of this response.

In particular, the feedback received indicates that supply quality is perceived very positively (with the exception of poor feeder areas). Current supply quality should be maintained, however if this will result in significant cost increases, then significant customer engagement (to inform and educate) is required. This would indicate that customers are not necessarily willing to pay for higher reliability.

13.1.4 Revenue at Risk

The S-Factor is the percentage of revenue at risk that may apply in each regulatory year. It is based on service quality performance from each preceding year. Energex requests that

the AER not set revenue at risk at the maximum of ±5% as the feedback from customers indicate that in the current environment, 'high powered' service performance incentives are unnecessary and customers are unwilling to pay more for improved service. As such, Energex strongly believes that maintaining the current ±2% revenue at risk is sufficient and prudent in the current environment.

Energex considers that this approach satisfies the objectives of the scheme as outlined below:

- STPIS clause 1.5(b)(1) requires that the benefit to consumers resulting from the scheme should be sufficient to warrant a reward or penalty. A low powered scheme would allow Energex to continue to prudently manage its risks and protect the interests of its consumers.
- STPIS clause 1.5(b)(2) requires consideration of any relevant regulatory obligation or requirement. The MSS obligations provide an adequate incentive on Energex to ensure it meets service standards in relation to the frequency and duration of distribution outages.
- STPIS clause 1.5(b)(6) requires consideration of the willingness of customers to pay for improved performance and as such a higher revenue at risk of 5%. Energex has undertaken willingness to pay surveys through its customer engagement which indicate that customers are not necessarily willing to pay for higher reliability.

However, should the AER apply ±5% Energex assumes that the lagging of the STPIS means that the first two years of revenue for the next regulatory control period will be calculated based on the STPIS performance (with a ±2% revenue at risk cap) in the last two years of the current regulatory control period (i.e. 2013/14 and 2014/15).

13.1.5 Reliability of Supply

Parameters

Energex supports the continued operation of the SAIDI and SAIFI reliability of supply components.

Performance Targets

Performance targets should reflect the performance a DNSP is expected to achieve in the forthcoming regulatory control period, including the expected impact of capital and operating programs on reliability performance.[24] The STPIS provides that performance targets for a regulatory control period must be based on average performance over the previous five regulatory years, modified for[25]:

- exclusions

[24] AER, STPIS, November 2009, clause 3.2.1(1A).

[25] AER, STPIS, November 2009, clause 3.2.1(a), pp. 9–10.

- planned or completed reliability improvements
- any other factors that will materially affect network performance.

Energex supports the AER's Preliminary Position to set performance targets based on the average performance over the past five regulatory years (2009/10-2013/14).

The *National Electricity Amendment (Network Service Provider Expenditure Objectives) Rule 2013* (initiated by the Standing Council on Energy and Resources) changed the expenditure objectives in the Rules such that Energex will only be able to include sufficient expenditure for reliability in its Regulatory Proposal to comply with quality, reliability and security obligations in accordance with jurisdictional standards. This Rule change suggests that STPIS targets will need to be adjusted to reflect the expected change in reliability.

This aligns with the AER's comments in the Expenditure Forecast Assessment Guidelines – Explanatory Statement:

> *Where the jurisdictional standards are lower than NSP's current standards, we will expect NSPs to reduce the opex and capex from previous levels to comply with the jurisdictional obligations. We will also need to adjust the STPIS targets to reflect the expected change in reliability.*[26]

Incentive rates

The incentive rates for the reliability of supply component are used in calculating the s-factor. It is based on the value that customers place on reliability of supply or Value of Customer Reliability (VCR).

In the Preliminary Positions paper, the AER has proposed to apply the VCR that currently applies in the STPIS but also notes that AEMO is expected to publish draft VCRs in early to mid-February 2014 and final VCRs in April 2014.

Energex suggests that if the AEMO VCR estimates are available prior to the release of the AER's Final F & A, then it is in the best interests of all parties that the updated VCR should be used (without the need for a comprehensive review of the STPIS) as it will provide confidence that the true value that customers place on reliability is reflected. The VCR's outlined in the AEMO discussion paper indicated that the VCR used by the AER in the STPIS scheme is overstated compared to more recent studies. Energex is also of the view that the current value of VCR used in the STPIS overstates the value that customers place on improvement from the contemporary reliability of electricity supply.

13.1.6 Customer Service

Parameters

[26] AER Expenditure Forecast Assessment Guideline Explanatory Statement November 2013 page 102

Under the STPIS Guideline, the telephone answering parameter measures the Grade of Service (GOS) based on the percentage of calls to the fault line that are answered in 30 seconds. The time to answer a call is measured from when the call enters the telephone system to when the caller speaks with a human operator. The definition of GOS also provides that:

- Calls abandoned by the customer within 30 seconds of the call being queued for response by a human operator are excluded from measurement; and
- Where the time in which a telephone call is abandoned is not measured, then an estimate of the number of calls abandoned within 30 seconds will be determined by taking 20 per cent of all calls abandoned.

For businesses such as Energex that are unable to capture calls abandoned within 30 seconds, the GOS formula is:

$$GOS_{EGX} = \frac{\text{Calls answered within 30 seconds}}{\text{Total calls} - \text{20\% of total abandoned calls}}$$

Energex has a number of phone lines including a Loss of Supply (LOS) line, a General Enquiry Line and an Emergency Line. The process for handling LOS calls is summarised below:

- incoming calls – diverted to Interactive Voice Response (IVR) message
- if the IVR message provides sufficient information to meet customer's requirements – the customer can terminate the call; IVR registers call for reporting purposes
- if the IVR message provides insufficient information to meet customer's requirements – customer can elect to join the LOS queue to speak to an Energex representative
- Energex systems can inject an outage message into the 'on hold' music whilst customers are waiting to speak to an operator. If the information is relevant, the customer may then elect to abandon the call or continue to wait for an operator.

Energex's LOS line functionality was deliberately designed to recognise a customer's phone number and provide power outage updates to customers whilst they are waiting, which in effect encourages customers to abandon the call before they speak to an operator when they no longer require the assistance of a human operator. Energex currently provides to the AER annually LOS telephone answering data as part of the Regulatory Information Notice.

Revenue at Risk

In relation to the revenue at risk, even though the call centre is an important feature of Energex's operations and is a key interface between Energex and its customers, it is argued that it is not prudent that the revenue at risk be set at the maximum of ±0.5% per year, as the amount of expenditure dedicated to the contact centre (and furthermore the LOS line) is

insignificant compared to the total operating expenditure allowance to warrant large revenue exposure. In addition, Energex proposes a variation to the scheme for the revenue at risk on the basis that customers are unwilling to pay for improved performance of the LOS. Therefore, Energex requests that the AER apply a more appropriate limit of ±0.1% to the telephone answering parameter.

13.1.7 Guaranteed Service Levels

The Queensland Electricity Industry Code has one of the most comprehensive GSL schemes across the NEM, which Energex understands will continue to apply to Energex for the forthcoming regulatory control period. Therefore, it is appropriate that the STPIS GSL component continue to not apply to Energex.

13.1.8 Exclusions

Certain events are excluded from the calculation of the S-factor revenue adjustment. These exclusions include events that are beyond the control of Energex, or major events that have the potential to significantly affect STPIS performance. Energex submits that the current exclusion of major event days should continue to be applied, which excludes days in which SAIDI is more than 2.5 standard deviations greater than the mean of the log normal distribution of five regulatory year's SAIDI data.

13.2 Demand Management Incentive Scheme (DMIS)

The purpose of a DMIS is to provide incentives for DNSPs to implement efficient non-network alternatives, or to manage the expected demand for standard control services in some other way, or to efficiently connect embedded generators.[27]

In December 2011, an amendment was made to the Rules to facilitate the inclusion of embedded generation research into the Demand Management Incentive Scheme, which renamed the scheme to Demand Management and Embedded Generation Connection Incentive Scheme (DMEGCIS). The DMEGCIS provides incentives for DNSPs to implement efficient non-network alternatives, to manage the expected demand for SCS in some other way, and to efficiently connect embedded generators.

The AER developed the DMIS prior to the Rule change and the AER is not proposing to amend the current Guideline until the Standing Council on Energy and Resources finalises its review of a series of rule changes related to the Power of Choice review. Therefore, Energex is assuming that the as the AER has not updated its Guideline, the DMEGCIS will not apply to Energex in time for the next regulatory control period.

In the current regulatory control period, the AER only applied Part A - demand management innovation allowance (DMIA) to Energex at a capped allowance of $5million. The AER has not proposed an allowance cap in its Preliminary Positions paper, but Energex requests that the AER continue with the current DMIA of $5million for the next regulatory control period.

[27] NER clause 6.6.3(a)

13.3 Efficiency Benefit Sharing Scheme (EBSS)

The EBSS provides a continuous incentive for distributors to pursue efficiency improvements in operating expenditure. The AER is proposing to apply the new EBSS (released 29 November 2013) to Energex in the next regulatory control period. Energex supports this proposal.

Energex understands that version 2 of EBSS has been designed to complement the Expenditure Forecasting Assessment Guidelines, in particular the AER's preference to employ the revealed cost, base-step-trend methodology in determining future operating expenditure. Amendments to the scheme to allow for adjustments to the base year operating expenditure to remove the impacts of one-off factors appear appropriate. Energex understands that these amendments adjust how the sharing of EBSS penalties or rewards occurs. That is, the EBSS penalties or rewards for the 2015-20 regulatory control period, will be distributed through EBSS carryovers rather than through operating forecast in the following 2020-25 regulatory control period.

Under version 2 of the EBSS, the AER proposes a number of adjustments to forecast or actual operating expenditure when calculating the carryover amounts including accounting for:

- Approved pass-through amounts or opex for contingent projects
- Capitalised opex that has been excluded from the RAB
- Categories of opex that are not forecast using a single year revealed cost approach
- Inflation

Energex largely agrees with the AER's proposed adjustments. However, there may be legitimate and reasonable circumstances where a DNSP has borne incremental costs associated with an uncontrollable event, but does not formally seek a pass-through or which would qualify for a cost pass-through but for the AER's materially threshold as outlined below. Energex believes that the application of the EBSS in the next regulatory control period should recognise uncontrollable costs which would qualify for a pass-through if a DNSP applied or where a pass-through would be permitted but for the materially threshold. Note that Energex has identified in its Expenditure Forecast Methodology several cost categories (including DSM initiatives, levies and debt raising), which will be forecast on a basis other than the base-step-trend method.

While the AER's Preliminary Position paper focuses on the application of the EBSS prospectively, Energex has concerns regarding the implementation of the current EBSS (version 1), which has financial implications for the next regulatory control period. Energex has responded to the EBSS incentives, despite being in an operating expenditure overspend position for the current regulatory control period. Energex's EBSS performance has been largely driven by non-current costs associated with natural disasters (in particular the 2011 floods and 2013 ex-tropical Cyclone Oswald) and business restructuring to account for a reduced program of work. The business restructuring initiative demonstrates Energex's commitment to pursuing efficiency improvements in operating expenditure.

Energex is concerned that the current EBSS (version 1) and the Expenditure Forecasting Assessment Guideline are not entirely compatible. Energex has non-recurrent costs in its proposed base year operating expenditure of 2012/13 and in all alternative base years, such that there is no representative base year without adjustment for one-off costs. The sharing of the efficiency gains/losses under the current EBSS (version 1) relies heavily on adoption of the unadjusted revealed cost into the next regulatory control period. Adjustments to the base year revealed cost will impact the sharing between the business and customers.

In addition, the reclassification of services from SCS to ACS may also have implications for the application of the EBSS. The F&A does not provide any detail as to whether and/or how the AER will account for EBSS gains/losses associated with services that are reclassified from the current to the next regulatory control period. The treatment of one-off costs under the version 1 of the scheme and potential reclassification of some services provides some uncertainty around EBSS incentives rates that apply to the current regulatory control period.

13.4 Capital Expenditure Sharing Scheme (CESS)

The CESS provides financial rewards for DNSPs whose capital expenditure becomes more efficient or penalises those that become less efficient. Energex accepts the AER's proposal to apply the new CESS in the next regulatory control period. Similarly to EBSS, Energex proposes that uncontrollable events, which would qualify for a pass-through if a DNSP applied or where a pass-through would be permitted but for the materially threshold, should be excluded from the CESS.

14 Other Matters (Confidential)

14.1 Averaging periods for estimating the allowed return on debt

In accordance with the Rate of Return Guideline published by the AER on 17 December 2013, Energex notes that the AER proposes to estimate the allowed return on debt using a trailing average portfolio approach. Further, the Rate of Return Guideline specifies that Energex can nominate the averaging period for estimating the prevailing rate of return of debt in the F & A or in the initial regulatory proposal.

The averaging period can be a period of 10 or more consecutive business days up to a maximum of 12 months and should specify the following conditions:

- The period must be specified prior to the commencement of the regulatory control period
- At the time the period is nominated, all dates in the averaging period must take place in the future
- The averaging period should be as close as practical to the commencement of each regulatory year in a regulatory control period
- A period needs to be specified for each regulatory year within a regulatory control period
- The specified periods for different regulatory years are not required to be identical, but should not overlap
- Each agreed averaging period is to be confidential.

Due to a number of incomplete Rules change proposals that have the potential to influence the availability of dates for the averaging periods, Energex considers that it is appropriate to mitigate the risks by utilising both the F & A and the Regulatory Proposal mechanisms for nominating the averaging periods for the 2015-20 regulatory control period. Energex proposes to nominate the averaging period for estimating the allowed rate of return on debt for the first year of the 2015-20 regulatory control period (the initial averaging period) in response to the AER's F & A paper.

[redacted]

[redacted]

For the remaining years of the regulatory control period, Energex will nominate the averaging periods in its regulatory proposal due by 31 October 2014. Energex has put forward this approach in response to proposed changes to the annual pricing proposal process in the Distribution Network Pricing Arrangement Rule Change Proposal currently under consideration by the AEMC. In the event that the timeframes for the annual pricing proposal are amended, this will influence the timing of future averaging periods that can be proposed by Energex. Consequently, Energex believes it is a sensible approach to wait until the AEMC's Draft Rule Determination is published in August 2014. This will enable Energex to make an informed decision regarding any constraints to available averaging dates while also satisfying each of the conditions of the Rate of Return Guidelines.

APPENDIX A

Classification of Services 2010-15 Regulatory Control Period

Appendix A - Classification of Services 2010-15 Regulatory Control Period

Distribution Service Group	AER service classification	Activities Included
Network services	Standard Control Service	• Constructing the shared network • Maintaining the shared network • Operating the shared network • Planning the shared network • Designing the shared network • Emergency response • Administrative support
Connection services	Standard Control Service	• Commissioning of connection assets • Service connections for small customers • Installation inspection • Operating and maintaining connection assets
Metering services	Standard Control Service	• Type 5-7 metering • Scheduled meter reading (non-chargeable) • Metering investigation • Maintaining and repairing meters and load control equipment
Street Lighting Services	Alternative Control Service	• Provision, construction and maintenance of street lighting

Quoted services	Alternative Control Service	• Rearrangement of network assets • Covering of low voltage mains • Non-standard data and metering services (type 5-7 metering) • Ancillary metering services • Supply enhancement • Metering enhancement • Temporary disconnect / reconnect • After hours provision of any service • Emergency recoverable works and rectification of illegal connections • Large customer connections • Design specification and other subdivision activities • Auditing of design and construction • Unmetered services including street lighting • Loss of Asset • Additional crew • Other recoverable work
Fee based services	Alternative Control Service	• Specification and design enquiry fee • De-energisation and re-energisation • Supply abolishment - simple • Temporary supply services (simple) • Unmetered supply • Fault response – not DNSP fault / attending loss of supply (BH) • Wasted attendance / site visit • Alterations and additions to current metering equipment • Overhead service replacement • Meter test / meter inspection • Reconfigure meter • Off cycle meter read • Locating Energex underground cables • Street light glare screening

		• Replacement of standard luminaries with aero screen units
Unregulated		• Watchman lights • Type 1-4 metering • Esi Train • High Load Escorts • Shared Assets / Broadband • Rental and Hire Services • Test, Inspect and Calibrate • Property Searches • Contracting Services to other NSPs • Equipment Services • Sale of Inventory, Asset or Scrap

APPENDIX B

Proposed Classification of Services (2015-20)

Appendix B - Service Descriptions and Proposed Classification of Services (2015-20)

Service Group	Service Description	AER's Proposed Service Classification	Energex's Comments
Network Services	**Planning the network** Network asset – assessment of asset requirements involving investment, management and delivery including risk and feasibility assessment and estimating and cost planning Demand management - the identification and development of non-network options to address forecast network limitations. Network forecasting – analysis of network demand to enable the development of the capital program of works Network business strategy development - strategic initiatives development and management including business improvement/efficiency initiatives Governance - developing policies, procedures and standards Regulatory planning as required by the National Electricity Rules	Standard Control Service	No objection
	Designing the network	Standard Control Service	No objection

	Creation of a plan or the standards and criteria for network construction. Includes developing design standards, protection engineering and designs for augmentation and extensions to the shared network.		
	Constructing the network Network construction, augmenting the shared network and extensions of shared network. Project planning and works management (works program development, procurement, vendor management, contract management, work scheduling and dispatching) Management of environmental issues Asset deployment and commissioning of shared network assets Asset relocation (other than those undertaken at a customer's request)	Standard Control Service	No objection
	Maintaining the network Planned maintenance – activities carried out to reduce the probability of failure or performance degradation of a network asset Corrective – activities undertaken to detect, isolate and rectify a fault so that the failed equipment, machine or system can be restored to normal operable state Work to restore a failed component of the distribution system to an	Standard Control Service	Energex believes that emergency recoverable works (where the third party who caused the damage cannot be identified) should be included in this category.

	operational state		
	Operating the network for DNSP purposes Network control and operation Outage management Emergency management and response Field operations Switching and testing for network purposes Scheduling and controlling the switching of controllable load for network purposes	Standard Control Service	No objection
	Administrative support for provision of network services Customer interactions including network product development, customer service management/call centre, complaints and enquiries, record management and network claim processing. Market operations: includes revenue management, network billing, processing of service order requests, market notifications of retailer changes. National Metering Identifier (NMI) establishment, discovery requests and classification in accordance with the rules. Populate and maintain NMI standing data in Market Settlement and	Standard Control Service	Energex believes that the provision, testing and replacing of load control equipment is better classified as a network service rather than a metering service.

	Transfer Solution in accordance with the rules. Processing and publication of notifications of new connections and alterations. Pricing strategy and development of pricing proposals Financial and commercial management Compliance monitoring and reporting Procurement activities Technical and safety training of DNSP staff Supply, manage and maintain DNSP Fleet Retailer management (e.g. credit support) Administration of connections pioneer / rebate scheme Supply, manage, test and maintain Energex field and load control equipment (other than metering equipment) Responding to cold water reports Network claim processing where distributor is at fault External stakeholder interactions (regulatory, government and industry) Environmental health and safety management (risk assessment,		

	monitoring, program management, reporting and training)		
Pre Connection Services	**General Connection Enquiry Services** Provision of standard information and general advice during connection enquiry. Includes provision of general connection information (e.g. supply availability) and services associated with assessing a connection applicant's enquiry and providing a response	Standard Control Service	No objection
	Connection Application Services Services associated with assessing a connection application, making a connection offer and negotiating offer acceptance. Includes: Application services to assess connection application and making of compliant connection offer. Undertaking design for small customer connection offer (excludes detailed design undertaken after a connection offer has been accepted) Carrying out planning studies and analysis relating to distribution (including sub-transmission and dual function assets) connection applications. Negotiation services involved in negotiating a connection agreement. Tender process – DNSP may carry out tender process on behalf of connection applicant or DNSP may assist connection application.	Alternative Control Service	No objection

	Protection and Power Quality assessment prior to connection		
	Pre-Connection Consultation Services Additional support services provided by the DNSP (on request) during connection enquiry and connection application other than General Connection Enquiry Services and Connection Application Services. Generally relates to services which require a customised or site-specific response and/or are available contestably. Includes: • site inspection in order to determine nature of connection (small or large customer connection) • provision of site-specific connection information and advice for large customer connection. • preparation of preliminary designs and planning reports for large customer connection • customer build, own and operate consultation services.	Alternative Control Service	No objection
Connection Services	**Small Customer Connections** Design, construction, commissioning and energisation of connection assets for small customers. (Generally, small customers are those customers who connect under the Standard Asset Connection tariff class in the DNSP's pricing proposal	Standard Control Service	Energex proposes Alternative Control Service
	Large Customer Connections	Alternative Control Service	Energex proposes Unclassified

	Design & construct of connection assets for large customers. Generally, large customers are those customers who connect under the Individually Calculated Customer (ICC), Connection Asset Customer (CAC) and Embedded Generator (EG) tariff classes as per the distributor's pricing proposal.		
	Commissioning and Energisation of Large Customer Connections Connection and energisation of Large Customer Connection assets to allow conveyance of electricity. Inspection and testing of connection assets. Includes administration services involved in reconciling the financials of a connection project, processing and finalising network information and contracts in relation to a connection.	Alternative Control Service	No objection
	Connection services provided to real estate developers of subdivisions		Energex proposes that a separate classification of ACS is necessary for real estate developers.
	Removal of network constraint for embedded generator Augmenting the network to remove a constraint faced by an embedded generator	Alternative Control Service	No objection
	Temporary Connections Customer requests a temporary connection (e.g. temporary builders	Alternative Control Service	No objection

	supply, blood bank vans, school fetes)		
Post Connection Services	**Operate and Maintain Connection Assets** Works to operate, maintain, repair and replace connection assets owned by or gifted to the DNSP to a technically acceptable standard. Excludes works initiated by a customer, which is not required for the efficient management of the network or for the DNSP purposes (such as customer requests to provide or maintain connection assets to a higher standard)	Standard Control Service	No objection
	Connection Management Services Work initiated by a customer which is specific to a connection point. Includes: Supply abolishment. Move point of attachment. Re-arrange network assets – network assets are re-arranged at customer's request. Overhead service line replacement – customer requests the existing overhead service to be replaced .e.g. as a result of a point of attachment relocation. No material change to load. Auditing services – auditing of connection assets after energisation to network. Protection and power quality assessment. e.g. embedded generation connected to network.	Alternative Control Service	No objection

	Customer requested works to allow customer or contractor to work close. • coverage of low voltage mains (tiger tails) – customer requests the line close to a construction site to be physically covered in order to provide safety to parties work in close proximity • Temporary disconnections and reconnection (including de-energisations and re-energisations) that may involve a line drop. e.g. community events. Supply enhancement. e.g. upgrade from single phase to three phase. Provision of connection services above minimum requirements. Upgrade from overhead to underground service. A reserve feeder is negotiated with customers specifically requesting continuity of supply should the feeder providing normal supply to their connection experiencing interruption. Customer consultation or appointment (if requested on B2B service order). Rectification of illegal connections or damage to overhead or underground service cables. Customer request for ad-hoc reconnections/disconnections for regular but short periods of time, for example holiday homes.		

	De-energisation: • Retailer requests de-energisation of the customer's premises (business or after hours) where the de-energisation can be performed (e.g. pole, pillar or meter isolation link). • Retailer requests de-energisation of the customer's premises – Main switch seal (business or after hours). Re-energisation: • Retailer requests re-energisation of the customer's premises where the customer has not paid their electricity account (business or after hours). • Retailer requests a re-energisation of the customer's premises following a main switch seal (business or after hours). • Reading provided for an active site. • Retailer requests a re-energisation of the customer's premises after a physical disconnection and premises requires a visual examination.		
	Accreditation of alternative service providers and approval of their designs, works and materials Accreditation of service providers that meet competency criteria. Approval of third party design, works and materials:	Alternative Control Service	No objection

	• Review, Inspection and Auditing of design and works carried out by an alternative service provider prior to energisation. • Certification of non-approved materials – approval of non-approved materials to be used on the network		
Metering Services	**Metering Installation** Includes on site connection of a new meter at a customer's premises, and on site connection of an upgraded meter at a customer's premises where the customer initiates the upgrade. Excludes installation of replacement type 5 and 6 meters initiated by the DNSP	Alternative Control Service	No objection
	Metering provision, maintenance, reading and data services Meter provision refers to meter selection, procurement, programming, testing and management of NMI standing data according to the rules. Meter maintenance covers scheduled maintenance, meter inspection, ~~load control relay maintenance~~, removal of meter and meter tampering. Meter reading refers to quarterly or other regular reading of a meter. Metering data services include collection, processing, storage and delivery of metering data, remote or self-reading at difficult to access sites, provision of metering data from previous 2 years, ongoing provision of metering data.	Alternative Control Service	Energex believes that load control relay maintenance is not a metering service but rather a network service.

	Meter Data Services provided as part of general obligations as a local network service provider in accordance with the rules.		
	Type 7 metering services Administration and management of type 7 metering installations in accordance with the Rules and jurisdictional requirements. Includes the processing and delivery of calculated metering data for unmetered loads, and the population and maintenance of load tables, inventory tables and on/off tables.	Standard Control Service	No objection
	Auxiliary Metering Services Off-cycle meter read, including: • special meter reads • move in move out meter reads • check read – check the accuracy of the meter reading. Testing for type 5 and 6 meters - customer requested meter accuracy testing. Meter inspection and investigation – a request to conduct a site review of the state of the customer's metering installation without physically testing the metering equipment. Alterations and additions to current metering equipment, includes: • meter alteration – meter is being relocated or meter wiring altered and requires DNSP to visit site to verify the	Alternative Control Service	Energex believes that the installation of load control relays or time switches are not auxiliary metering services but related to network services. Energex also suggests an amendment to the wording for the provision, installation, maintenance and testing of instrument transformers.

	integrity of the metering equipment • exchange meter – customer requests exchange of their current meter (e.g. for alternative metering configuration/consolidation of multiple meters for one meter), or customer requests exchange of their current meter for a solar photovoltaic meter. Provision, installation, testing and maintenance of instrument transformers for metering purposes ~~low voltage (LV) current transformers (CT).~~ Type 5 to 7 non-standard metering data services. Replacement or removal of a type 5 or 6 meter instigated by a customer switching to a non-type 5 or 6 meter that is not covered by any other fee. Meter re-seal – where the customer has caused the meter to need re-sealing (e.g. by having electrical work done on site). Install additional metering. Reconfigure meter. Meter Exit Fee – recovery of stranded assets costs associated with the removal of meter/s from customer's premises before the end of their useful life at the request of the customer (or customer's retailer) due to a change in Responsible Person /Meter Coordinator. ~~Install load control.~~		

	Remove load control relay or time clock.		
Street lighting services	**Provision, construction and maintenance of street lighting** Application assessment, design, review and audit public lighting services. Provision, construction and maintenance of new street lighting services. Alteration, repair, relocation, rearrangement or removal of existing street light assets. Provision of glare shields, vandal guards, luminaire replacement with aero screens. A fee for the residual asset value of non-contributed public lights when removed from service before the end of their useful life at the request of the customer. Operating street lighting assets including handling enquiries and complaints and dispatching crews to repair assets.	Alternative Control Service	No objection
	Emerging or new public lighting technology New public lighting technologies, including trials Energy efficient retrofit (including where customer requests to retrofit existing assets before end of life)	Alternative Control Service	No objection

Ancillary Network Services	**Services provided in relation to a Retailer of Last Resort (ROLR) event** Distributors may be required to perform a number of services as a distributor when a ROLR event occurs. These include: Preparing lists of affected sites, and reconciling data with AEMO listings; handling in-flight transfers; identifying open service orders raised by the failed retailer and determining actions to be taken in relation to those service orders; arranging estimate reads for the date of the ROLR event and providing data for final network use of system (NUOS) bills in relation to affected customers; preparing final invoices for NUOS and miscellaneous charges for affected customers; preparing final debt statements; extracting customer data, providing it to the ROLR and handling subsequent enquiries; handling adjustments that arise from the use of estimate reads; assisting the retailer with the provision of network tariffs to be applied and the customer move in process; administration of any 'ROLR cost recovery scheme distributor payment determination'.	Alternative Control Service	No objection
	Other recoverable works Customer requests the provision of electricity network data including pole assess information. Specific request for the provision of zone substation data. Bundling of cables carried out at the request of another party. Provision of services, other than standard connection, for approved unmetered equipment, public telephones, traffic lights and public	Alternative Control Service	Energex proposes that Emergency Recoverable Works (work to repair damage to the distribution network caused by an identifiable third party from whom costs may be recovered) should continue to be classified as an ACS.

	BBQs. Customer requested appointments. Attendance at customer's premises to perform a statutory right where access is prevented. Rearrangement of assets (other than connection assets). Conversion to aerial bundled cables. Aerial markers. Parallel generator applications. Reserve feeder.		
Unclassified distribution services	Type 1-4 metering Emergency Recoverable Works Watchman lights Shared assets High Load Escorts	Unclassified	Energex does not support the AER's proposed classification of emergency recoverable works as unclassified. Energex believes that High load escorts should be included in the list of unclassified services
Non-distribution services that are unregulated	Rental and Hire services Test, inspect and Calibrate	Unregulated	No objection

	Property searches Contracting Services to other NSPs Provision of training to external parties Equipment services Sale of inventory, asset or scrap Operate and maintain large customer connections		