30 August 2021

Sebastian Roberts
General Manager – Expenditure
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Email: standardSCScapexmodel@aer.gov.au

Dear Mr Roberts

Energy Queensland Limited (Energy Queensland), on behalf of its distribution businesses, Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy), welcomes the opportunity to comment on the Australian Energy Regulator's (AER's) Issues paper on a standardised model for standard control services (SCS) capital expenditure (capex). The standardised SCS capex model will be used in future distribution determinations and will replace the distributor specific models currently in use.

Energy Queensland broadly supports the AER's development of a standardised SCS capex model. We agree that the model will potentially streamline resources and increase consistency across determinations. However, we have some concerns with the approach adopted in the AER's preliminary model. These include:

1. **The provision of project level information**: The standardised model includes project level information that Energex and Ergon Energy have not provided previously in their respective capex models. While we acknowledge that some distributors have included project level data in their capex models, given the size of our two distributors, the volume of our projects is significantly larger. As a result, we have traditionally retained the project level data in our corporate systems rather than have it in an Excel model. We propose that the AER's standardised capex model provide flexibility on the provision of project level information in the standardised models.

2. **The real cost escalation approach:** While we note that the AER has only approved real cost escalations for internal labour in recent determinations, we do not support this approach being specified in the model. These are distribution determination specific issues; therefore, the model should retain flexibility for the distributors to propose and apply real cost escalations to materials and contract services.

3. **Capitalised overheads:** We support the model providing flexibility on the use of historical actuals or substituted values. However, the model should also provide flexibility in relation to the allocation of overheads. The approach adopted in the

model of allocating overheads based on total direct project costs is inconsistent with Energex's and Ergon Energy's currently approved Cost Allocation Methods (CAMs) and would result in inconsistencies between the figures in the standardised capex model and the business cases and other capex justification documents that we are required to submit.

Furthermore, the model should also include the flexibility to add more categories of overheads. Energex and Ergon Energy currently have an additional 'Non-network' overheads category, which includes the operating costs associated with the use of non-system assets such as Information Communications and Technology (ICT), property, and fleet in the provision of the service. In accordance with the CAM, these costs are allocated on a different basis to network and corporate overheads.

We would welcome further engagement with the AER as it progresses with the development of the model.

Should you wish to discuss any aspect of this matter further, please contact Guy Mutasa on [redacted]

Yours sincerely

Trudy Fraser
Manager Regulation

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