Annual RIN Basis of Preparation

1 July 2019 to 30 June 2020



Part of Energy Queensland

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BOP – Cost Allocation Method Recast

Annual Reporting, Economic Benchmarking, and Category Analysis Regulatory Information Notice - Financial Templates

Requirement to recast financial information

This Basis of Preparation Document describes the process to report overheads in accordance with the AER's approved CAM's (Ergon Energy Cost Allocation Method Version 5, and Energex's Cost Allocation Method Version 3a) applicable to the 2019-20 regulatory year. It is an overarching approach inserted at the beginning of this document as it impacts all overhead costs for Ergon Energy and Energex reported in financial templates for the Annual Reporting (including Workbook 2), Economic Benchmarking, and Category Analysis Regulatory Information Notices.

The Cost Allocation Method Recast work was undertaken by Energy Queensland (EQL) for Distribution Network Services Providers (DNSP), Ergon Energy and Energex. Any reference to Energex does not impact the Ergon Energy CAM recast, or vice versa.

EQL is implementing, a single Enterprise Resource Planning (ERP) and Enterprise Asset Management (EAM) system in SAP, which will impact reporting in Regulatory Information Notices (RIN) to the Australian Energy Regulator (AER) in 2019-20. EQL is the parent entity of Distribution Network Services Providers Ergon Energy and Energex.

On 22 November 2018, the AER approved a combined Ergon Energy and Energex Cost Allocation Methodology (2020-25 CAM) to take effect from 1 July 2020, at the commencement of the new regulatory control period. Additionally, the existing CAM's (Interim CAMs¹⁾ were approved by the AER to reflect our new corporate structure to take effect from 1 December 2018.

On 1 July 2019, the existing ERP, Ellipse, adopted the 2020-25 CAM 1 year earlier than the AER's approved effective date for statutory reporting and general ledger (GL) purposes. As such, statutory and regulatory reporting requirements diverged in 2019-20, and hence created a need to recast Ellipse general ledger transactions for regulatory reporting purposes.

The Reporting and Analytics Transition and Sustainability (RATS) Project rebuilt reporting capability for regulatory reporting in 2019-20 by developing a CAM Recast Model using an SAP Enterprise Intelligence Platform (EIP).

Compliance with Requirements

Regulatory Information Notices require information to be provided in each regulatory template in the Microsoft Excel Workbooks completed in accordance with the approved cost allocation method which

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¹ Ergon Energy AER approved CAM (Version 5), Energex's AER approved CAM (version 3a) effective 1 Dec 2018.

applies to the relevant regulatory year.

The Table below demonstrates how the information provided by Ergon Energy and Energex is consistent with each of the requirements specified by the AER.

Requirements (instructions and definitions)	Consistency with requirements
Energex Ltd and Ergon Energy Ltd Cost Allocation Method AER Final Decision November 2018 - Section 1.1 Summary: In November 2018 the AER approved all three proposed amended CAM's under clause 6.15.4(c) of the rules. The current CAM for Ergon Energy and Energex became effective from 1 December 2018.	Ergon Energy and Energex applied the AER approved CAM's (Ergon Energy Cost Allocation Method Version 5, and Energex's Cost Allocation Method Version 3a) which became effective from 1 December 2018.
Ergon Energy and Energex Interim CAM's Section 10 and 13 CAM Consistency: Policies and principles relating to allocations will be consistently applied across accounting periods to ensure that regulatory financial reports are prepared on a consistent basis over time.	Ergon Energy and Energex have applied the CAM consistently across accounting periods for consistency.
 Ergon Energy and Energex Interim CAM's Section 11 and 14 Interim Record Keeping: The ERP provides the capability to record and report all financial information based on the CAM principles and policies for both statutory and regulatory purposes. All records will be appropriately retained in accordance with regulatory and legislative requirements. All information submitted to the AER through regulatory information notices is subject to external audit prior to submission. 	Ergon Energy and Energex's ERP and Corporate Support Costs Allocation Models are the underlying data source and basis for which overhead rates were derived to be applied in the CAM Recast Model providing an auditable record.
Ergon Energy and Energex Interim CAM Section 12 and 15 Monitoring compliance with the CAM and CAG: The Finance and Corporate Services Business Unit is responsible for monitoring compliance with the CAM for Ergon Energy and Energex. Operationally, the General Manager Financial Control will be responsible on a day to day basis for compliance.	Ergon Energy and Energex's annual statutory financial statements and the ERP are reviewed by our external auditors. Ergon Energy and Energex has also undertaken independent audit of the regulatory reporting statements for compliance with regulatory reporting requirements, including the CAM.

Table 1-1 Demonstration of Compliance

Annual Reporting RIN Appendix F Definitions;

Economic Benchmarking RIN Appendix 9 Definitions;

Category Analysis RIN Definitions and Interpretation.

'Actual Information' definition:

 Information presented in response to the Notice whose presentation is materially dependent on information recorded in Ergon Energy and Energex's historical accounting records or other records used in the normal course of business, and whose presentation for the purposes of the Notice is not contingent on judgments and assumptions for which there are valid alternatives, which could lead to a materially different presentation in the response to the Notice.

'Accounting records' include trial balances, the general ledger, subsidiary accounting ledgers, journal entries and documentation to support journal entries. Actual financial information may include accounting estimates, such as accruals and provisions, and any adjustments made to the accounting records to populate Ergon Energy and Energex's regulatory accounts and responses to the Notice. 'Records used in the normal course of business', for the purposes of non-financial information, includes asset registers, geographical information systems, outage analysis systems, and so on.

The regulatory reporting statements have been prepared in accordance with the Ergon Energy and Energex's Interim CAM's that apply to 2019-20. We have reviewed the cost allocations for the current financial year to ensure they have been consistently applied in accordance with the CAM. In undertaking this review, we have implemented a CAM Recast Model.

We confirm that all financial transactions from the general ledgers have been accurately replicated into the CAM Recast Model. We also confirm that the 2020-25 CAM transactions have been removed and that the 2015-20 CAM transactions have been accurately generated in the CAM Recast Model.

Sources

Ergon Energy and Energex use the Ellipse General Ledger as the source of information in the CAM Recast Model. General ledger instances are acquired in the same manner from base transactional tables in the operational systems. This transactional data is replicated in its entirety to the SAP Enterprise Intelligence Platform (EIP) via legacy data warehouses.

This is a two-step replication with the first using SharePlex to monitor and apply changes at the Oracle application table (MRF900) into a matching Oracle data warehouse table. This SharePlex process has been successfully performed for 10 years and is monitored by real-time system checks and periodic database administrator health checks.

The second step replicates the data from these Oracle data warehouse tables into the EIP source containers using SAP Smart Data Integration (SDI) running every five minutes.

The resulting SAP EIP data is reconciled back to the Ellipse general ledgers through matching trial **balances** for current and prior periods.

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The rules to be applied in the CAM Recast model are loaded via two spreadsheets respectively for Energex and Ergon Energy rates pertinent to those charts of accounts.

Methodology

The approach undertaken in the CAM Recast Model is outlined in Figure 1 below, to produce transactional data for 2019-20 regulatory reporting, by extracting overhead/CAM allocation entries from GL transactions and by reapplying overheads based on Interim CAM rules.





CALCULATION OF 2019-20 CAM RATES

Ergon Energy and Energex's previous year (2018-19) Corporate Support Costs Allocation Models were obtained from the Financial Planning team and updated with 2019-20 actual data to calculate 2019-20 overhead rates.

For Ergon Energy, the Responsibility Centre (RC) corporate allocation percentages to Unregulated lines of business were carried forward from the prior year. Analysis prepared by the Financial Planning team demonstrated this assumption would immateriality impact on results given allocations do not vary significantly year-on-year (less than ±2%).

All other inputs were updated with 2019-20 actual information obtained from the CAM Recast Model after the CAM allocation / overhead entries had been extracted. Financial year actual expenditure is used (as opposed to full year budget information), to derive the calculated rates. The use of actual costs to derive overhead rates resulted in an immaterial over or under recovery of overheads.

For specific categories of the model key points are noted below, including difference between Ergon Energy and Energex's approaches where they diverge.

Labour on-cost (Ergon Energy and Energex)

CAM business rules for 2018-19 and 2019-20:

- Same approach for Interim and 2020-25 CAMs (same pool / allocated based on same definition of W&S / included in direct costs);
- 2019-20 CAM workpapers also show that the rates are unchanged from 2018-19.

Materials on-cost (Ergon Energy and Energex)

CAM business rules for 2018-19 and 2019-20:

- Same approach for Interim and 2020-25 CAMs (same pool / allocated based on stores issues);
- Recalculated rates using 2019-20 year to date actuals and updated in the CAM Recast Model.

Fleet costing (Ergon Energy)

- 2018-19 (Interim CAM) approach involved fleet costing (into direct costs) with rates determined for each fleet class to recovery appropriate costs (including depreciation);
- New regulatory CAM (2020-25) moves to a simple allocation methodology, based on labour dollars incurred; and
- Statutory CAM / (Ellipse) GL approach continues with fleet costing for 2019-20, in line with the 2018-19 approach. Therefore, as this complies with the Interim CAM no changes are required.

Fleet costing (Energex)

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- 2018-19 (Interim CAM) approach involved an allocation based on labour dollars to recover fleet costs (excluding depreciation)
- New regulatory CAM (2020-25) continues with the same simple allocation methodology, based on labour dollars incurred.
- However statutory CAM / (Ellipse) GL approach recovers fleet costs and fleet depreciation, using the same allocation methodology, based on labour dollars incurred.
- The CAM Recast Model has been updated with a new rate to recover year to date fleet costs only (not depreciation).

Unregulated Allocation (Ergon Energy)

- 2018-19 (Interim CAM) approach involved significant analysis each year, with input from across the business, to determine percentage allocations for each RC to unregulated lines of business;
- New regulatory CAM (2020-25) will allocate costs to unregulated as part of the three-factor methods for corporate overheads and network overheads;
- For 2019-20, new unregulated allocations have been determined using 2019-20 year to date expenditure for each RC but maintaining 2018-19 percentage allocations (refer to Assumptions). Analysis provided by the Financial Planning team indicates that there is minimal variation year to year in the percentage allocations and the conclusion is that the percentage allocations continue to be a fair reflection of the split of effort and cost to each line of business.
- Where costs appeared on new RC's during 2019-20, the function of that RC was determined and allocations were based on an existing RC which performs a similar function.

Unregulated Allocation (Energex)

- 2018-19 (Interim CAM) approach used a three-factor method to allocate costs to unregulated lines of business;
- New regulatory CAM (2020-25) will allocate costs to unregulated as part of the three factor methods for corporate overheads and network overheads;
- For 2019-20, the three-factor method has been updated with 2019-20 year to date expenditure.
- 1. Regulated Overheads (Ergon Energy and Energex)
- 2018-19 (Interim CAMs) approach identified all RCs included in the regulated overhead pool, with exclusions for specific activities, products and elements. The unregulated proportion (refer above) was also deducted to determine the size of the pool. The base (regulated program of work direct costs) was determined by activity ranges and specific elements. The pool is then divided into the base to determine the regulated overhead rate. Ergon Energy separates regulated overheads between Opex, Capex and Customer Care and determines separate overheads rates for each. Energex has a combined regulated Opex and Capex rate;

 For 2019-20, the process was repeated, using year to date data from the CAM Recast Model, with CAM allocation / overhead entries removed. Costs incurred in EQLD district were allocated to specific RCs in Ergon Energy and Energex, based on a model used by the Business Planning and Analysis team for 2018-19. Also, ICT and lease costs were added in. Refer to notes below on these topics.

a) Energy Queensland support costs (Ergon Energy and Energex)

- In prior years, costs incurred in EQLD district were allocated to specific RCs in Ergon Energy and Energex based on a model used by the Business Planning and Analysis team;
- This process was repeated for the 2019-20, adding the support costs attributable to each entity into the CAM Recast Model for inclusion into the respective overhead pools and allocation to the businesses.

b) ICT costs (Ergon Energy and Energex)

- In prior years, ICT costs were incurred in SPARQ and charged to DNSPs as Asset Usage Fees, Service Level Agreement (SLA) fees and Telecommunications costs;
- Under the 2020-25 CAM and in the GL for 2019-20, ICT assets have moved out of SPARQ and into the DNSPs. Assets (also Capex and Depreciation) are directly attributed to DNSPs where possible, with the remainder allocated using the CAM non-network principles (i.e., allocated based on labour incurred). Asset Usage Fees have not been recorded in the General Ledger for 2019-20;
- Costs for the 2019-20 financial year have been allocated between Ergon Energy and Energex on the same basis as 2018-19 and added into to the CAM Recast Model for inclusion into the respective overhead pools and allocation to the businesses;
- This will be a one-off adjustment for the 2019-20 regulatory year, as the Statutory and Regulatory approaches will align in the 2020-25 regulatory period.

c) Lease costs (Ergon Energy and Energex)

- The Australian Accounting Board introduced AASB16 Leases in 2019-20 replacing AASB117;
- Leases are now on-balance sheet for Statutory Reporting purposes and in the General Ledger.
- To maintain consistency with the 2015-20 Distribution Determination and the AER approved CAM, lease costs were recalculated to show lease expense instead of on-balance sheet treatment with depreciation and interest.

- Lease expense for 2019-20 has been allocated between Ergon Energy and Energex and manually added into the overhead pools.
- This will be an ongoing adjustment for the 2019-20 regulatory year and the 2020-25 regulatory period for legacy leases, as the Statutory and Regulatory approaches differ.

CAM SPREADSHEET OVERHEAD RATES

The resulting CAM overhead rates calculated as detailed above, are then entered into a CAM rates file for each entity which provides the relevant Ellipse account strings attracting the on-cost or overhead along with the appropriate rate, account code to post the on-cost or overhead and the account code to post the recovery of that on-cost or overhead.

This is then used to feed into SAP EIP CAM Recast and apply the on-costs and overheads based on the 2019-20 CAM rules.

The extract below is from the Ergon Energy CAM rates file, showing that a specified account mask (usually applicable to an activity code within the ellipse account string) attracts a certain percentage of overheads, posting to element 8140 or 8100, with the recovery posting to element 8350.

C	D	E	F	G	н		J	K	L
[ACCT_MASK]	[RATE] 🔻	[JOURNAL_TYPE] 🔻	[MIN_LIMIT]	[OH_DSTRCT] 🔻	[OH_COST_CODE]	[OH_EXPS_ELEM] 🔻	[RV_DSTRCT] 🔻	[RV_COST_CODE] 🔻	[RV_EXPS_ELEM] 🔻
@@@@C2090@@@@@@@@@	002932	OH	000100	EECL	@@@@C2090@@@@@	8140	EECL	5020510400000	8365
@@@@52000@@@@@@@@@	004739	OH	000100	EECL	@@@@52000@@@@@	8100	EECL	0002625000000	8350
@@@@53@@@@@@@@@@@	004739	OH	000100	EECL	@@@@53@@@@@@@@	8100	EECL	0002625000000	8350
@@@@54@@@@@@@@@@@@	004739	OH	000100	EECL	@@@@54@@@@@@@@	8100	EECL	0002625000000	8350
@@@@56@@@@@@@@@@@	003909	OH	000100	EECL	@@@@56@@@@@@@	8100	EECL	0002625000000	8350
@@@@C200@@@@@@@@@@	004739	OH	000100	EECL	@@@@C200@@@@@@	8100	EECL	0002625000000	8350
@@@@C201@@@@@@@@@@	004739	OH	000100	EECL	@@@@C201@@@@@@	8100	EECL	0002625000000	8350

The extract below is from the Energex CAM rates file, showing that a specified account mask (usually applicable to an activity code and element combination within the ellipse account string) attracts a certain percentage of on-costs or overheads, posting to element 8102 (fleet on-cost), 8103 (materials on-cost) or 8104 (overheads), with the recovery posting to the same element but a recovery activity.

[CAM PULE REF]	ICAM DST	[ACCT_MASK]	[RATE]	LIOURN	IOH COST CODE]	OH EXPS FLEM]	[PV_DSTRCT]	[BV_COST_CODE]	[BV EXPS FLEM]
	ECN4		000050	ou			ECV4	1220000000000	[INV_EXILO_ECCIVI]
EGX101FL140XXX3302	EGXI	@@@@@40@@@@@@@3302@@@@@	000859	UH	@ @ @ @ @ @ @ @ @ @ @ @ @ @ @	8102	EGX1	133098050P000	8102
EGX101FLT40XXX3312	EGX1	@@@@40@@@@@@@3312@@@@	000859	ОН	00000000000000000	8102	EGX1	133098050P000	8102
EGX101FLT41XXX3302	EGX1	@@@@41@@@@@@@3302@@@@	000859	OH	0000000000000000	8102	EGX1	133098050P000	8102
EGX101FLTC2XXX3302	EGX1	@@@@C2@@@@@@@3302@@@@	000859	OH	000000000000000000	8102	EGX1	133098050P000	8102
EGX101FLTC2XXX3312	EGX1	@@@@C2@@@@@@@3312@@@@	000859	ОН	0000000000000000	8102	EGX1	133098050P000	8102
EGX101FLTC35XX3302	EGX1	@@@@C35@@@@@@3302@@@@	000859	ОН	000000000000000	8102	EGX1	133098050P000	8102
EGX101FLTC35XX3312	EGX1	@@@@C35@@@@@@3312@@@@	000859	ОН	0000000000000000	8102	EGX1	133098050P000	8102
EGX101MAT40XXX4400	EGX1	@@@@40@@@@@@@4400@@@@	000532	ОН	000000000000000	8103	EGX1	133098050P000	8103
EGX101MAT41XXX4400	EGX1	@@@@41@@@@@@@4400@@@@	000532	ОН	000000000000000	8103	EGX1	133098050P000	8103
EGX101MAT42XXX4400	EGX1	@@@@42@@@@@@@4400@@@@	000532	ОН	0000000000000000	8103	EGX1	133098050P000	8103
EGX101MAT430XX4400	EGX1	@@@@430@@@@@@4400@@@@	000532	ОН	000000000000000	8103	EGX1	133098050P000	8103
EGX101MATC2XXX4400	EGX1	@@@@C2@@@@@@@4400@@@@	000532	OH	000000000000000000000000000000000000000	8103	EGX1	133098050P000	8103
EGX101MATC30154400	EGX1	@@@@C3015@@@@4400@@@@	000532	ОН	0000000000000000	8103	EGX1	133098050P000	8103
EGX101MATC35XX4400	EGX1	@@@@C35@@@@@@4400@@@@	000532	ОН	000000000000000	8103	EGX1	133098050P000	8103
EGX101MATC4XXX4400	EGX1	@@@@C4@@@@@@@4400@@@@	000532	OH	000000000000000000000000000000000000000	8103	EGX1	133098050P000	8103
EGX101OVH41XXX3302	EGX1	@@@@41@@@@@@@3302@@@@	006037	ОН	0000000000000000	8104	EGX1	133098050P000	8104
EGX101OVH41XXX3312	EGX1	@@@@41@@@@@@@3312@@@@	006037	ОН	000000000000000	8104	EGX1	133098050P000	8104
EGX101OVH41XXX4400	EGX1	@@@@41@@@@@@@4400@@@@	005855	ОН	000000000000000	8104	EGX1	133098050P000	8104
EGX101OVH41XXX4500	EGX1	@@@@41@@@@@@@4500@@@@	005529	ОН	000000000000000000000000000000000000000	8104	EGX1	133098050P000	8104
EGX101OVH41XXX4900	EGX1	@@@@41@@@@@@@4900@@@@	005529	ОН	000000000000000000000000000000000000000	8104	EGX1	133098050P000	8104

SAP EIP CAM RECAST MODEL

The CAM Recast model is a new SAP HANA database structure that is built on top of the landed data from Ellipse general ledgers and applying the rules and rates from specific Ergon Energy and Energex spreadsheets. However, the pattern is the same process as currently happens directly in the sourcing general ledgers where transactions are compared against defined account code masks and then where matched will generate two additional transactions (a primary and reversal overhead) at a percentage rate to the driving transaction.

Approach

The CAM Recast model passes all general ledger sourced transactions through the same process:

- 1. Current year (2019-20) transactions are identified:
- If a transaction is posted to a financial period outside the 2019-20 year then this is passed through, no further rules are applied, and these transactions appear in the results full and complete. The steps below are now only effective to those transactions falling into the 2019-20 financial year.
- 2. Ellipse 2019-20 overheads are stripped out:
- These are transactions specifically tagged by the automated legacy CAM processes with a journal type of "OH", or manual journals that specifically post to the segments dedicated to overhead costs. They are removed and do not contribute to further results.
- 3. New 2019-20 overheads are generated:

The spreadsheet rules for new CAM transactions are acquired and consist of:

- A filtering account code mask
- Overhead rate to be applied
- A primary account code, and
- A reversing account code.

Driving source transactions are identified by comparing against the defined filtering account code mask for a match (refer above section "CAM Spreadsheet Overhead Rates").

Driving source transactions related to user defined excluded expense elements or projects are disqualified (these exclusions consistently follow the CAM application rules whereby certain expense elements do not attract overheads due to their nature and a list of non-system building construction projects associated with a specific GL activity are exempt from overheads as they are wholly completed by external contractors).

All identified driving transactions then generate two new CAM transactions: i) a new primary overhead transaction and ii) a new reversing overhead transaction. The amounts are calculated from the driving transaction amount multiplied by the defined overhead rate in the matching rule (the reversing transaction is negated). Similarly, the segment applied comes from the primary and reversing account code in the matching rule.

The resulting CAM Recast model has all driving transactions from step 2 as well as all overhead transactions from step 3.

Note: the CAM spreadsheet rules are applied against the entire years transactions every time it is used, in real-time. There is no batch processing. This means if the rules or rates are changed then these are retrospectively applied to the entire year.

Version Control

The CAM Recast database model is an SAP HANA construct existing in the Energy Queensland (EQL) SAP Cloud Platform AWM instance. The model is maintained in a development environment and then migrated through testing environments before residing in a read-only production environment for business use. All source code is stored in a GIT repository with separately secured branches for work-in-progress and committed components.

The CAM rules and rates are mastered in separate Ergon Energy and Energex spreadsheets by the Finance team. These are maintained in secured folders and then authorised, released and loaded into the CAM Recast model from a separate HANA folder.

Reconciliations

The following reconciliations and controls were applied to provide assurance over the process:

To verify the overheads applied by the CAM recast model a reconciliation of the output to the
expected overhead based on a manual recalculation by direct activity was performed. In all
cases, for both entities the on-costs and overheads applied by the model agreed within all
material respects.

- The consolidated Energy Queensland pool of indirect costs was reconciled to the total cost pools
 calculated and utilised for deriving the CAM rates for Ergon Energy and Energex. This
 incorporated the known differences for treatment of Sparq costs and lease expenses and
 considered the underlying mappings of exclusions and unregulated costs as followed by the
 models used the calculate the indirect cost pools and overhead rates for each entity.
- A high-level reconciliation was performed for Ergon Energy and Energex comparing the original general ledger (as audited for Statutory purposes) to the Recast extract. The overall net profit/loss for those entities was compared pre and post recast identifying the financial impact of the different treatments of certain costs under the 2019-20 CAM and the 2020-25 CAM as reflected in the general ledger.

Assumptions

For 2019-20, with the implementation of the CAM Recast Model key points to note include:

- Direct expenditure remains unchanged as obtained from the same Ellipse GL codes, with transactions coded to account combinations of Responsibility Centre / Activity / Product / Expense Element;
- Overhead rates were recalculated using the 2018-19 overhead rate model which applies CAM business rules compliant with the Interim CAM using 2019-20 actual dollars as inputs;
- An assumption is applied Ergon Energy's Corporate Support Costs Allocation Model where corporate responsibility centre allocations were adopted from prior year inputs with sensitivity analysis supporting the assumption would result in immaterially different results.

Therefore, the conclusion is that the CAM Recast Model data extracts meet the definition of 'actual information' in accordance with annual RIN Notices (AR, EB, CA RIN's).

Estimated Information

Ergon Energy and Energex have provided Actual Information, in accordance with the AER's definition.

Explanatory Notes

BOP - 2.11 Labour

Table 2.11.3 - Labour/Non-Labour Expenditure Split 1

Table 2.11.3.1 - OPEX

Compliance with the RIN Requirements

Ergon Energy has prepared information provided in Template 2.11 table 2.11.3.1 Opex and table 2.11.3.2 Capex for Current Year in accordance with the RIN requirements, including the Principles and Requirements set out in Appendix E and definitions in Appendix F to the RIN.

Ergon Energy has populated all variables for cells shaded yellow as required by the RIN.

Ergon Energy notes that Reconciliation with Capex and Opex Worksheets - SCS is greyed out and automatically populated.

Ergon Energy has populated all variables to include all expenditure used to deliver standard control services that is associated with people.

Labour expenditure relates to:

- full time, part time and casual employees;
- ongoing and temporary employment contracts;
- labour hire contracts.

Labour expenditure includes wages, salaries, overtime payments, bonuses, allowances, incentive payments, superannuation, contributions, taxes (e.g payroll and fringe benefits taxes), termination and redundancy payments, workers compensation, training and study assistance, purchase made on behalf of employees (e.g protective clothing).

Non-labour expenditure are those other than Labour Expenditure.

Sources

Ergon Energy has sourced data from the CAM Recast data extract 0295 Account Balances report, and Project Accounting Module for the relevant regulatory year.

Methodology

OPEX In-house labour expenditure

In-house directly costed labour expenditure was calculated using general ledger codes. In addition, in-house labour expenditure included in network or corporate overheads was allocated to Opex and Capex proportionately based on the Direct Opex and Direct Capex Labour Costs. In 2019-20 a

rate of 71% was used to determine the SCS Overhead Portion being the average SCS rate applied on Labour overheads in the Category Analyis RIN (CA RIN).

Labour expenditure outsourced to related parties

In 2018-19 there was a material change to Energy Queensland Limited's (EQL) employment model where Ergon Energy's employees were transferred to EQL. As such EQL Labour is to be treated as in house / internal labour (not related party labour). This change in method was endorsed by the AER on 21 August 2019.

Labour expenditure outsourced to unrelated parties

These were identified by general ledger codes established to record contractor expenditure. As the cost structure of external contractors is commercially sensitive to the contractors concerned this information was not obtainable. Accordingly, all contractor expenditure has been reported as being labour.

Controllable non-labour expenditure

Controllable non-labour expenditure were confirmed to represent all non-labour expenditure that is not Uncontrollable non-labour expenditure. Such costs include materials and fuels, insurance and guaranteed service level (GSL) payments.

Assumptions

No assumptions were made.

Estimated Information

Ergon has provided 'Actual Information' (as per the AER's defined term) in relation to all variables contained in this Template.

Explanatory Notes

Table 2.11.3 - Labour/Non-Labour Expenditure Split 2

Table 2.11.3.2 - CAPEX

Compliance with the RIN Requirements

Ergon Energy has prepared information provided in Template 2.11 table 2.11.3.1 Opex and table 2.11.3.2 Capex for Current Year in accordance with the RIN requirements, including the Principles and Requirements set out in Appendix E and definitions in Appendix F to the RIN.

Ergon Energy has populated all variables for cells shaded yellow as required by the RIN.

Ergon Energy notes that Reconciliation with Capex and Opex Worksheets - SCS is greyed out and automatically populated.

Ergon Energy has populated all variables to include all expenditure used to deliver standard control services that is associated with people.

Labour expenditure relates to:

- full time, part time and casual employees;
- ongoing and temporary employment contracts;
- labour hire contracts.

Labour expenditure includes wages, salaries, overtime payments, bonuses, allowances, incentive payments, superannuation, contributions, taxes (e.g payroll and fringe benefits taxes), termination and redundancy payments, workers compensation, training and study assistance, purchase made on behalf of employees (e.g protective clothing).

Non-labour expenditure are those other than Labour Expenditure.

Sources

Refer to responses provided in relation to table 2.11.3.1 for source of information provided in response to Capex Labour. All source reports were generated from the Recast data extracts.

Methodology

CAPEX In-house labour expenditure

In-house labour expenditure was calculated using general ledger codes that identify in-house labour expenditure. In addition, in-house labour included in network or corporate overheads was allocated to Opex and Capex proportionately based on the Direct Opex and Direct Capex Labour

Costs. In 2019-20 a 71% rate was used to determine the SCS Overhead Portion being the average SCS rate applied on Labour overheads in the Category Analyis RIN (CA RIN).

Labour expenditure outsourced to related parties

In the prior year there was a material change to Energy Queensland Limited's (EQL) employment model where Ergon Energy's employees were transferred to EQL. As such EQL Labour is to be treated as in house / internal labour (not related party labour). This change in method was endorsed by the AER on 21 August 2019.

Labour expenditure outsourced to unrelated parties

These were identified by general ledger codes established to record contractor expenditure. As the cost structure of external contractors is commercially sensitive to the contractors concerned this information has not been obtainable. Accordingly, all contractor expenditure has been reported as being labour.

Controllable non-labour expenditure

Controllable non-labour expenditure was confirmed to represent all non-labour expenditure that is not Uncontrollable non-labour expenditure. Such costs include materials and fuels, insurance and guaranteed service level (GSL) payments.

Uncontrollable non-labour expenditure

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

Assumptions

No assumptions were made.

Estimated Information

Ergon has provided 'Actual Information' (as per the AER's defined term) in relation to all variables contained in this Template.

Explanatory Notes

BOP - 3.6 Quality of Service

Table 3.6.6 - Complaints - Technical Quality of Supply

Table 3.6.6.1 - Technical Quality of Supply

Table 3.6.6.2 - Percentage of Complaints by Category

Table 3.6.6.3 - Percentage of Complaints by Likely Cause

Compliance with the RIN Requirements

Ergon Energy has prepared the information provide in Template 3.6 Quality of Supply and Table 3.6.6 - Complaints - Technical Quality of Supply in accordance with the RIN requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the RIN.

Ergon Energy has populated all variables for cells shaded yellow as required by the RIN.

Under the current Annual Reporting RIN, Ergon Energy is only required to populate "Number of complaints - technical quality of supply" in table 3.6.6.1, with the reminder of Table 3.6.6 Complaints, greyed out and not for completion.

Sources

Ergon Energy has sourced quality of service (QoS) enquiries data from the FeederStat application for the financial year 2019-20. This application is used for capturing all customer QoS enquiries along with the enquiry information and identified cause at close out.

Methodology

Ergon Energy has reported the total number of Customer QoS enquiries as sourced from the applicable system stated above,

Ergon Energy is not required to report on any disaggregation below the total number of Customer QoS enquiries.

Assumptions

No assumptions were made.

Estimated Information

Not applicable. Ergon Energy has provided actual information.

Explanatory Notes

Table 3.6.7 - Customer Service Metrics 1

Table 3.6.7.1 - Timely Provisions of Services

Table 3.6.7.3 - Call Centre Performance

Table 3.6.7.4 - Number of Customer Complaints

Compliance with the RIN Requirements

Ergon Network has prepared the information provide in Table 3.6.7 Customer Service Metrics in accordance with the RIN requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the RIN.

Ergon Network has populated all variables for cells shaded yellow as required by the RIN.

Ergon Network has not populated information in relation to Complaint - technical quality of supply (table 3.6.7.4) which historically has been greyed out and reflected the same count as per the entry in field 3.6.6.1.

Sources

Table 3.6.7 - Customer Service Metrics

Ergon Energy has sourced data from:

- Cherwell as the application capturing customer feedback (positive and negative).
- Ergon Energy maintains several systems in regards to work request and work tracking through Ellipse (Work Requests and Work Orders) and the Field Force Automation device (FFA Tool)

(PLUMS database used to capture the entire number of unmetered connections (i.e. Streetlights) that are owned and maintained by Ergon Energy and third parties.

Table 3.6.7.1 - Timely Provisions of Services

An SQL script was constructed and used to extract the data from PEACE as there were new 'Additions and Alteration' and 'New Connection' classifications added in 2019-20 which were not used in 2018-19.

Table 3.6.7.3 - Call Centre Performance

Ergon Energy has sourced data from, Cisco Unified Intelligence Center (CUIC), which records all calls that are made to the Ergon Energy Network fault lines.

Methodology

Table 3.6.7.1 - Timely Provisions of Services

In relation to *Number of connections made* and *Number of connections not made on or before agreed date* - data provided is as per that sourced from Peace via the Enterpride Data Warehouse (EDW) using an SQL query.

Peace is our market transaction and process tracking system that, in this case, stores the service request data. Numbers provided relate specifically to New Connection service requests. Those not made on agreed date are defined as having a completion date after the obligation date.

The use of DMK213: Completed NC & AA Service Orders vs Internal SLA Report.

The report provides information on all Service Orders completed between nominated dates and includes information to enable management analyse performance with respect to Service Orders completed as a comparison:

- Against the "Revised Obligation End Date (NC/SSWNC & AA)" if the NC/SSWNC/AA PTJ subclass has Comparison Type in SLA Matrix (DMK619) of "SCHEDDATE".
- Against the Market Obligation End Date if Comparison Type in SLA Matrix (DMK619) is "OBLIGDATE".

Exceptions;

If there is a Customer agreed Appointment Date or an Obligation End Date changed with Reason of 'F2 Dates', 'Network Activity Reqd', 'Customer Agreed', 'Customer Requested', 'Natural Disaster', 'Further Documentation', 'Internal Appointment', 'Excluded Location', 'Dependency Other Request', 'Local Holiday', 'Traffic Permit' and this extends the SLA, then this date will be applied to SLA calculations.

Table 3.6.7.3 - Call Centre Performance Calls to call centre fault line

- Calls to call centre fault line is the total number of calls to call centre fault line to be reported:
 - Including any answered by an automated response service and terminated without being answered by human operator; and
 - $_{\circ}$ Excluding missed calls where the call centre fault line is overloaded.

Data is sourced from Cisco Unified Intelligence Center (CUIC) which records all calls that are made to the Ergon fault lines.

This allows Customer Operations to analyse call traffic for Ergon Energy inbound services such as 1300 and 13 numbers. It can be used to identify the number of telephone calls made to each telephone number. For the purposes of identifying the number of calls made to the Contact Centre's fault line this tool provides the relevant totals. The tool is able to identify between fault line calls and customer service calls, the latter is excluded for this requirement. The total includes all calls made, irrespective of whether the customer decided to speak with an operator or terminated the call whilst within the IVR system.

The Report used:

STPIS RIN Calls to Fault Line NORTHERN SOUTHERN Parameters: financial Year 2019-20 dates.

The call total can then be entered into the parameters listed in Table 3.6.7.3 of the RIN.

Calls to fault line answered within 30 seconds:

- Ergon Energy provides a specific telephone line, which receives calls on 132296 and 131670, for electricity outage related calls. From 1 July 2018 to 30 June 2019, Ergon Energy used a telephone platform supplied by Cisco to route telephone calls. This system provided a mechanism to distribute calls to Customer Operations Officers in the Customer Operations Department and also enable reporting of call activity. Reportable items for both systems include but are not limited to:
 - Recording volume of calls received at the call centre:
 - Recording the length of time between a caller entering the system and the call answered by an operator; and
 - Recording the length of time between a caller entering the system and the caller abandoning the call.
- The Cisco platform data was extracted directly from the Cisco reporting system, Cisco Unified Intelligence Centre (CUIC) i.e. The STIPIS RIN Full Year NORTHERN SOUTHERN Report.

The Daily Reporting of Calls:

• A report is run in this system on a daily basis which provides the number of calls presented to agents, including the number of calls answered within 30 seconds, with the output saved and tracked in a spreadsheet.

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

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

The Report used to record average Waiting Time in 2019-20 is the STIPIS RIN Full Year NORTHERN SOUTHERN.

Call centre - number of overload events:

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

Calls Abandoned - percentage:

As per the description of the Cisco telephony platform above which explains the reporting systems ability to provide details of the number of calls where the caller abandons the call. The Cisco system the reporting system, CUIC, has been used to extract this information. Calls abandoned include all calls received and queued for a response by a human operator but are abandoned before being answered by the operator. This includes those calls abandoned prior to 30 seconds.

The calculation for percentage of calls abandoned is total number of calls abandoned divided by total number of calls offered *100

The Report used the STIPIS RIN Full Year NORTHER SOUTHERN

Table 3.6.7.4 - Number of customer complaints:

Ergon Energy has reported Customer Service complaints as sourced from the above stated systems, for the below categories of disaggregation:

- Complaint reliability of supply
- Complaint technical quality of supply
- Complaint administrative process or customer service

- Complaint connection or augmentation
- Complaint other
- Total number of complaints

For the purposes of reporting customer complaints at the dissemination required Ergon Energy has filtered on all negative complaints and has mapped the RIN categories from the existing Cherwell subcategories.

Assumptions

No assumptions were made.

Estimated Information

Not applicable. Ergon Energy has provided actual information.

Explanatory Notes

There is a material shift across the 2019-20 complaint volumes against the categories. In September 2019 Energex and Ergon Energy Network standardised the categories they use across their two instances of Cherwell. This has allowed for more accurate capturing of categories of complaints and permitted a standardised approach to the AER category mapping. This has meant that the volume of complaints has significantly reduced in the 'other' category while increasing in 'administrative process or customer service' and 'connection or augmentation'. This reflects more accurate categorisation.

Table 3.6.7 - Customer Service Metrics 2

Table 3.6.7.2 - Timely Repair of Faulty Street Lights

Compliance with the RIN Requirements

Ergon Energy has prepared the information provide in Table 3.6.7 Customer Service Metrics in accordance with the RIN requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the RIN.

Ergon Energy has populated all variables for cells shaded yellow as required by the RIN.

In accordance with the AER's clarification of 23 February 2016, reporting in Table 3.6.7.2 Total Number of Streetlights has been reported as the total number of streetlights for which Ergon Energy has responsibility to maintain.

Sources

Ergon Energy has sourced data from:

- Cherwell as the application capturing customer feedback (positive and negative).
- Ergon Energy maintains several systems in regards to work request and work tracking through Ellipse (Work Requests and Work Orders) and the Field Force Automation device (FFA Tool)

(PLUMS database used to capture the entire number of unmetered connections (i.e. Streetlights) that are owned and maintained by Ergon Energy and third parties.

Methodology

In relation to repair of faulty street lights, all Work Orders, Work Requests and Field Force Automation (FFA) jobs created in 2019-20 were collated and cross referenced. Work Orders and FFA jobs were cleansed where:

- Start dates were before 01-07-19
- End dates still open at time of report run
- Work Order not corrective streetlight maintenance
- Work Order for multiple/ bulk repair / inspection
- Work Order cancelled
- Work Order duplicates existed

Work Order Start dates were calculated and cleansed by using a preference of: Work Request Work Order - FFA Device as per the system processes.

Work Order End dates were calculated and cleansed by using a preference of FFA -Work Order -Work Request.

In relation to Street lights - average monthly number "out", the total count of cleansed corrective streetlight maintenance work orders is divided by 12.

In relation to Street lights - not repaired by "fix by" date, is a count of cleansed corrective streetlight maintenance work completed in greater than 5 days.

In relation to Street lights - average number of days to repair, the average days to complete of cleansed corrective streetlight maintenance work orders was calculated.

In relation to Total number of Streetlights - data is provided from the PLUMS database for the total count of Ergon Energy Owned & Operated and Gifted and Ergon Energy Operated streetlights at the end of 2019-20.

Assumptions

No assumptions were made.

Estimated Information

Not applicable. Ergon Energy has provided actual information.

Explanatory Notes

BOP - 3.6.8 Network Feeders

Table 3.6.8 - Network Feeder Reliability

Compliance with the RIN Requirements

Ergon Energy has prepared the information provided in Template 3.6.8 Network Feeders, Table 3.6.8 - Network Feeder Reliability in accordance with the RIN requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the RIN and in accordance with Economic Benchmarking RIN instructions and definitions (November 2013).

Ergon Energy has populated all variables for cells shaded yellow as required by the RIN.

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

Sources

Ergon Energy has sourced data from its internal outage management and asset management systems for the relevant regulatory year.

Consumption for the "Energy Not Supplied" was sourced from the Network billing system Peace.

The line length data set for sourced from the Ergon Geospatial Information System (Smallworld) and represents the network as it was configured at the end of the relevant regulatory year.

Methodology

As relevant, Ergon Energy has also applied definitions and methodology as set out in the AER's Electricity DNSPs, STPIS (November 2009) and Economic Benchmarking RIN instructions and definitions (November 2013), which remains applicable to Ergon Energy for the current regulatory control period.

In order to obtain the information for the relevant regulatory year, Ergon Energy applied the following assumptions:

- Relevant Financial Year (Between 1 July and 30 June)
- Include all distribution feeders that experienced completed sustained (> 1min) unplanned and planned interruptions.
- Include all active distribution feeders that did not experience any interruptions and that have customers attached to the feeder as at 30 June in the relevant regulatory year
- A customer is defined as a premise having an assigned Active NMI with an Active Account. Customer numbers are held in the ECORP database.

 It should be noted that the totals of the above two line length data in this Table 3.6.8 have no bearing on the feeder classifications assigned to the distribution feeders for relevant financial year reliability performance reporting. The line length data that was utilised to assign feeder classifications is based on network as it was configured at the beginning of the relevant regulatory year.

Table 3.6.8 - Network Feeder Reliability

Feeder ID / Name is the unique Feeder ID as sourced from the FDRSTAT asset data.

Description of the service area for the feeder is as per the Geographical location of Ergon Energy's legacy supply regions - i.e. FN (Far North), NQ (Northern Queensland), MK (Mackay), CA (Capricornia), WB (Wide Bay), and SW (South West).

Feeder classifications are Urban (UR), Short Rural (SR) & Long Rural (LR) as per the definitions in Appendix A of the AER's Electricity DNSP's, STPIS (November 2009). Reporting is based on the feeder's classification the end of the regulatory year.

Number of distribution customers on a feeder is calculated by adding the total of customers connected to the feeder at the beginning of the regulatory year (1 July) and the end of the regulatory year (30 June) and dividing the total by 2. If the feeder was only active for a short period throughout the year the customers where calculated by adding the total of customers connected to the feeder when the feeder became active in the regulatory year and when the feeder become inactive in the regulatory year and dividing the total by 2.

Length of HV distribution lines [overhead] contains the total length in km of Ergon Energy owned, as constructed, regulated overhead conductors for each feeder.

Length of HV distribution lines [underground] contains the total length in km of Ergon Energy owned, as constructed, regulated underground conductors for each feeder.

Maximum demand values on a distribution feeder during the regulatory year are provided in MVA. This is provided by Ergon Energy's System Development Group through the Current State Assessment report for distribution feeders. These are the MVA values that were utilised to assign the feeder classifications for the relevant regulatory year.

Energy Not Supplied MWh (unplanned and planned) has been calculated using data reported for unplanned/planned customer minutes off supply (Mins) multiplied by the average consumption by feeder (in minutes) sourced from Peace.

This is in accordance with methodology Chapter 7. Table 7.2 approach three *"average consumption of customers on the feeder based on their billing history"* as defined in the Economic Benchmarking RIN instructions and definitions (November 2013) for energy not supplied, inclusive of the exclusions under clause 3.3(b) (Major Event Days) and exclusive of the exclusions in

accordance with clauses 3.3(a) of the AER's STPIS scheme and exclusive of Customer Installation Faults/Failures which reside beyond the electricity supply network.

The calculations are based on current connectivity by feeder and not connectivity at the time of the outage. For some feeders that no longer active or have changed connectivity in the system ECORP the average consumption per minute over all feeders is used. The methodology adopted is irrespective of the time of day the outages occurred.

Total number of unplanned outages records the total number of completed sustained unplanned interruptions that occurred on that distribution feeder during the relevant regulatory year, inclusive of exclusions in accordance with clauses 3.3(a) & (b) of the AER's STPIS scheme.

Unplanned customer minutes off-supply (SAIDI) (including excluded events and MEDs) represents SAIDI calculated by the summated feeder unplanned customer minutes on the feeder for the year divided by the average number of customers on the feeder for the relevant regulatory year, inclusive of all exclusions in accordance with clauses 3.3(a) & (b) of the AER's STPIS scheme and inclusive customer installation faults/failures which reside beyond the electricity supply network. .

Unplanned customer minutes off-supply (SAIDI) (after removing excluded events and MED) represents SAIDI calculated by the summated feeder unplanned customer minutes on the feeder for the year divided by the average number of customers on the feeder for the relevant regulatory year, after removing all exclusions in accordance with clauses 3.3(a) & (b) of the AER's STPIS scheme and exclusive customer installation faults/failures which reside beyond the electricity supply network.

Unplanned interruptions (SAIFI) (including excluded events and MEDs) represents SAIFI calculated by the summated feeder unplanned customer interruptions on the feeder for the year divided by the average number of customers on the feeder for the relevant regulatory year, inclusive of all exclusions in accordance with clauses 3.3(a) & (b) of the AER's STPIS scheme and inclusive customer installation faults/failures which reside beyond the electricity supply network.

Unplanned interruptions (SAIFI) (after removing excluded events and MEDs) represents SAIFI calculated by the summated feeder unplanned customer interruptions on the feeder for the year divided by the average number of customers on the feeder for the relevant regulatory year, after removing all exclusions in accordance with clauses 3.3(a) & (b) of the AER's STPIS scheme and exclusive customer installation faults/failures which reside beyond the electricity supply network. .

Total number of planned outages records the total number of completed sustained planned interruptions that occurred on the distribution feeder during the relevant regulatory year.

Planned customer minutes off-supply (SAIDI) (including MEDs) represents SAIDI calculated by the summated feeder planned customer minutes on the feeder for the year divided by the average number of customers on the feeder for the relevant regulatory year, inclusive of STPIS exclusions in accordance with clauses 3.3(b) of the AER's STPIS scheme and inclusive customer installation faults/failures or requests which reside beyond the electricity supply network.

Planned customer minutes off-supply (SAIDI) (after removing MED) represents SAIDI calculated by the summated feeder planned customer minutes on the feeder for the year divided by the average number of customers on the feeder for the relevant regulatory year, after removing STPIS exclusions in accordance with clauses 3.3(b) of the AER's STPIS scheme and inclusive customer installation faults/failures or requests which reside beyond the electricity supply network.

Planned interruptions (SAIFI) (including MEDs) represents SAIFI calculated by the summated feeder planned customer interruptions on the feeder for the year divided by the average number of customers on the feeder for the relevant regulatory year, inclusive of STPIS exclusions in accordance with clauses 3.3(b) of the AER's STPIS scheme and inclusive customer installation faults/failures or requests which reside beyond the electricity supply network.

Planned interruptions (SAIFI) (after removing MED) represents SAIFI calculated by the summated planned feeder customer interruptions on the feeder for the year divided by the average number of customers on the feeder for the relevant regulatory year, after removing STPIS exclusions in accordance with clauses 3.3(b) of the AER's STPIS scheme and inclusive customer installation faults/failures or requests which reside beyond the electricity supply network..

Assumptions

No assumptions were made.

Estimated Information

Ergon Energy has provided 'Actual Information' in relation to all Reliability statistics from the outage management system.

Ergon Energy has provided 'Estimated Consumption data Information', therefore the Energy not Supplied is an Estimate in Table 3.6.8 for the relevant regulatory year. Ergon Energy believes the estimate supplied is its best estimate based on the available information at the time.

Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.

Explanatory Notes

BOP - 3.6.9 Network Reliability

Table 3.6.9 - Network Feeder Reliability - Planned Outages

Compliance with the RIN Requirements

Ergon Energy has prepared the information provided in Template 3.6.9 Network Feeder Reliability,

Table 3.6.9.1 Planned Minutes of Supply (SAIDI) and Table 3.6.9.2 Planned Interruptions to Supply (SAIFI) in accordance with the RIN requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the RIN.

Ergon Energy has populated all variables for cells shaded yellow as required by the RIN.

Ergon Energy has not populated information in relation to CBD which is greyed out and not applicable to it for the regulatory control period.

Sources

Ergon Energy has sourced data from its internal outage management and asset management systems for the relevant regulatory year.

Methodology

3.6.9 - Network Feeder Reliability - Planned Outages

3.6.9.1 - Planned Minutes Off Supply (SAIDI)

SAIDI for each regulated feeder classification are calculated based on the following criteria:

- Relevant Financial Year (Between 1 July and 30 June)
- Completed planned sustained (> 1min) interruptions
- Feeder Classifications: Urban (UR), Short Rural (SR) & Long Rural (LR)
- SAIDI calculation Customer minutes divided by average number of customers

Inclusive of the STPIS exclusions in accordance with clauses 3.3(a) & (b) of the AER's STPIS scheme for Electricity DNSPs (November 2009) and inclusive customer installation faults/failures which reside beyond the electricity supply network.

3.6.9.2 - Planned Interruptions Off Supply (SAIFI)

SAIFI for each regulated feeder classification are calculated based on the following criteria:

- Relevant Financial Year (Between 1 July and 30 June)
- Completed planned sustained (> 1min) interruptions

- Feeder Classifications: Urban (UR), Short Rural (SR) & Long Rural (LR)
- SAIFI calculation Customer interruptions divided by average number of customers

Inclusive of the STPIS exclusions in accordance with clauses 3.3(a) & (b) of the AER's STPIS scheme for Electricity DNSPs (November 2009) and inclusive customer installation faults/failures which reside beyond the electricity supply network.

Assumptions

No assumptions were made.

Estimated Information

Ergon Energy has provided actual information in Table 3.6.9.1 and Table 3.6.9.2 for the relevant regulatory year.

Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.

Explanatory Notes

BOP - 6.2 STPIS Reliability

Table 6.2.1 - Unplanned Minutes off Supply (SAIDI)

Table 6.2.2 - Unplanned Interruptions to Supply (SAIFI)

Table 6.2.4 - Distribution Customer Numbers

Compliance with the RIN Requirements

Ergon Energy has prepared information provided in Template 6.2 table 6.2.1 unplanned minutes of supply (SAIDI), table 6.2.2 Unplanned Interruptions to Supply (SAIFI) and table 6.2.4 Distribution Customer Numbers for current year in accordance with the RIN requirement, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the RIN.

Ergon Energy has populated all variables for cells shaded yellow as required by the RIN.

Ergon Energy has not populated information in relation to CBD which is greyed out and not applicable to it for the regulatory control period.

Ergon Energy has not populated information in relation to CBD and all variables relating to "Average customer numbers", which are greyed out and not applicable to it under the RIN issued.

Sources

Ergon Energy has sourced data from its internal outage management and asset management systems for the relevant regulatory year.

Methodology

Distribution Feeders are classified as Urban (UR), Short Rural (SR) & Long Rural (LR) as per the definitions in Appendix A of the AER's Electricity Distribution Network Service Providers (DNSPs), Service Target Performance Incentive Scheme (STPIS) (November 2009). Reporting is based on the feeder's classification at the end of the relevant regulatory year as at 30 June.

An event caused by a customer's electrical installation or failure of that electrical installation which only affects supply to that customer is not deemed an interruption as defined, "A sustained interruption is any loss of electricity supply to a customer associated with an outage of any part of the electricity supply network" STPIS 2009 and CA RIN [Appendix E 18.2]. These events have been confirmed through site inspection to have resulted from faults and failures within the customer's installation and as such are considered to be an event beyond the boundary of the electricity supply network and therefore excluded from Ergon Energy reported reliability performance under the STPIS. **Exclusions** are applied in accordance with clauses 3.3(a) & (b) of the AER's STPIS scheme for Electricity DNSPs (November 2009), and excluding Customer Installation Faults/Failures which reside beyond the electricity supply network.

Whole of Network statistics (in the absence of specification) were assumed to encompass the summation of Urban (UR), Short Rural (SR) & Long Rural (LR) (customer minutes, customer interruptions and customer numbers).

6.2.1 - Unplanned Minutes off Supply (SAIDI)

Total sustained minutes off supply

SAIDI for each feeder classification are calculated based on the following criteria:

- Relevant Financial Year (Between 1 July and 30 June)
- Completed unplanned sustained (> 1 min) interruptions
- Feeder Classifications: UR, SR & LR
- Feeder Classification: Whole of network(summation of UR, SR & LR)
- SAIDI calculation Customer minutes divided by average number of customers

Inclusive of the exclusions in accordance with clauses 3.3(a) & (b) of the AER's STPIS scheme and Customer Installation Faults/Failures which reside beyond the electricity supply network.

Total of excluded events*see 3.3 of STPIS

SAIDI for each feeder classification based on the following criteria:

- Relevant Financial Year (Between 1 July and 30 June)
- Completed unplanned sustained (> 1min) interruptions
- Feeder Classifications: UR, SR & LR
- Feeder Classification: Whole of network(summation of UR, SR & LR)
- SAIDI calculation Customer minutes divided by average number of customers

Summation of the exclusions in accordance with clauses 3.3(a) & (b) of the AER's STPIS scheme and Customer Installation Faults/Failures which reside beyond the electricity supply network.

Total sustained minutes off supply after removing excluded events

SAIDI for each feeder classification was calculated based on the following criteria:

• Relevant Financial Year (Between 1 July and 30 June)

- Completed unplanned sustained (> 1min) interruptions
- Feeder Classifications: UR, SR & LR
- Feeder Classification: Whole of network(summation of UR, SR & LR)
- SAIDI calculation Customer minutes divided by average number of customers

Exclusive of the exclusions in accordance with clauses 3.3(a) & (b) of the AER's STPIS scheme and Customer Installation Faults/Failures which reside beyond the electricity supply network.

Table 6.2.2 - Unplanned Interruptions to Supply (SAIFI) Total sustained interruptions

SAIFI for each feeder classification are calculated based on the following criteria:

- Relevant Financial Year (Between 1 July and 30 June)
- Completed unplanned sustained (> 1min) interruptions
- Feeder Classifications: UR, SR & LR
- Feeder Classification: Whole of network(summation of UR, SR & LR)
- SAIFI calculation Customer interruptions divided by average number of customers

Inclusive of the exclusions in accordance with clauses 3.3(a) & (b) of the AER's STPIS scheme and Customer Installation Faults/Failures which reside beyond the electricity supply network.

Total of excluded events*see 3.3 of STPIS

SAIFI for each feeder classification based on the following criteria:

- Relevant Financial Year (Between 1 July and 30 June)
- Completed unplanned sustained (> 1min) interruptions
- Feeder Classifications: UR, SR & LR
- Feeder Classification: Whole of network(summation of UR, SR & LR)
- SAIFI calculation Customer interruptions divided by average number of customers

Summation of the exclusions in accordance with clauses 3.3(a) & (b) of the AER's STPIS scheme and Customer Installation Faults/Failures which reside beyond the electricity supply network.

Total sustained interruptions off supply after removing excluded events

SAIFI for each feeder classification was calculated based on the following criteria:

- Relevant Financial Year (Between 1 July and 30 June)
- Completed unplanned sustained (>1min) interruptions

- Feeder Classifications: UR, SR & LR
- Feeder Classification: Whole of network(summation of UR, SR & LR)
- SAIFI calculation Customer interruptions divided by average number of customers

Exclusive of the exclusions in accordance with clauses 3.3(a) & (b) of the AER's STPIS scheme and Customer Installation Faults/Failures which reside beyond the electricity supply network.

Table 6.2.4 - Distribution Customer Numbers

Customer numbers at the start of the reporting period is the number of Customers (by feeder), measured on the first day of the Relevant Regulatory Year.

Customer numbers at the end of the reporting period is the number of Customers (by feeder), measured on the last day of the Relevant Regulatory Year.

A Customer is a distribution customer with an active account and active National Metering Identifier (NMI) i.e. inactive accounts are excluded.

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

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

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

Assumptions

No assumptions were made.

Estimated Information

Ergon Energy has provided actual information in Table 6.2.1 for the relevant regulatory year. Where information is provided it is done so in accordance with the AER's definitions and in accordance with Clauses 3.3(a) & (b) of the AER's STPIS scheme for Electricity DNSP's (November 2009), and applying the assumptions and methodology that is described within this Basis of Preparation.
Explanatory Notes

BOP - 6.6 Customer Service

Table 6.6.1 - Telephone Answering

Compliance with the RIN Requirements

Ergon Network has prepared the information provided in Template 6.6 STPIS Customer Service, Table 6.6.1 Telephone Answering in accordance with the RIN requirements, including the

Principles and Requirements set out in Appendix A and definitions in Appendix F to the RIN.

Ergon Network has populated all variables for cells shaded yellow as required by the RIN.

Sources

Ergon Energy Network provides a specific telephone line, which receives calls on 132296 and 131670, for electricity outage related calls. Between 1 July 2019 and 30 June 2020 Ergon Network used a telephony platform supplied by Cisco.

This system provides a mechanism to distribute calls to Customer Operations Officers in the Customer Operations Department and enables reporting of call activity. Reportable items for this system include, but is not limited to:

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

The system plays an Interactive Voice Recording (IVR) message prior to queueing the call for response by an operator. As stipulated in Appendix A of the Service Target Performance Incentive Scheme (STPIS), the time measured for a call begins after the caller decides to remain on the line after the IVR message is played.

Ergon Energy has sourced data from its Cisco reporting system, Cisco Unified Intelligence Centre (CUIC).

Methodology

A report is run in CUIC daily which provides the number of calls presented to agents with the output saved and tracked in a spreadsheet. These results are verified against a full year report run in CUIC with a daily breakdown.

It should be noted that total calls used for calculating the STPIS grade of service are based on calls queued to agents only and does not include calls terminated by customers as the result of listening to a message through an automated response service.

Where major event days (MED) have been declared these dates have been sourced from the Network Reliability Team and entered in the relevant monthly tab with formulas in place to exclude the calls for these dates from the STPIS calculations. Calls related to specific excluded outages, as outlined in Appendix F of the RIN, are not removed as it is not possible to identify the exact number of calls generated because of a particular outage in the CISCO telephony system.

All monthly totals are shown on the "YTD Summary" tab of the main spreadsheet with annual totals for all calls and calls with MED approved exclusions removed.

Assumptions

Ergon Network has several phone numbers including a Loss of Supply line, Emergency line and General Enquiry line. It assumes a Fault call is a call made to either the Loss of Supply or Emergency lines. The Loss of Supply and Emergency lines use an IVR which has the capability to automatically identify the location of a caller (where Ergon Network recognises the number through Call Line Identification- CLI) and to provide specific outage advice to those callers. This automated IVR information positively satisfies a large proportion of the callers to the Loss of Supply line. Calls that proceed through the IVR are subsequently recorded at various stages, such as when they are answered and when the call ends. This allows collection of data such as average wait time and volume of calls answered within 30 seconds.

Estimated Information

Ergon Energy has provided actual information in Table 6.6.1 for the 2019-20 Regulatory Year.

Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.

Explanatory Notes

Updated and simplified call flows were introduced into the telephony platform throughout July 2019 which has reduced the number of different queues that compile all fault call types. This has no impact on reporting. This has meant that when compiling the telephony data for 2019-20, reporting against all new and legacy queues has taken place to ensure a full dataset for the financial year.

BOP - 6.7 STPIS Daily Performance

Table 6.7.1 - Daily Performance Data - Unplanned

Compliance with the RIN Requirements

Ergon Energy has prepared information provided in Template 6.7 table 6.7.1 Daily Performance Data - Unplanned for Current Year in accordance with the RIN requirements, including the Principles and Requirements set out in Appendix B (template), Appendix A and definitions in Appendix F to the RIN.

Ergon Energy has populated all variables for cells shaded yellow as required by the RIN.

Ergon Energy has not populated information in relation to MAIFI which is greyed out and not applicable to it for the regulatory control period.

Sources

Ergon Energy Network has sourced data from its Cisco reporting system, Cisco Unified Intelligence Centre (CUIC).

Ergon Network provides a specific telephone line, which receives calls on 132296 and 131670, for electricity outage related calls. Between 1 July 2019 and 30 June 2020 Ergon Network used a telephony platform supplied by Cisco. This system provides a mechanism to distribute calls to Customer Operations Officers in the Customer Operations Department and enables reporting of call activity. Reportable items for this system include, but is not limited to:

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

The system plays an Interactive Voice Recording (IVR) message prior to queuing the call for response by an operator. As stipulated in Appendix A of the Service Target Performance Incentive Scheme (STPIS), the time measured for a call begins after the caller decides to remain on the line after the IVR is played.

Data was extracted directly from the Cisco reporting system, Cisco Unified Intelligence Centre (CUIC).

Methodology

A report is run in CUIC daily to provide the number of calls presented to agents with the output saved and tracked in a spreadsheet.

It should be noted that total calls used for calculating the STPIS grade of service are based on calls queued to agents only and does not include calls terminated by customers as the result of listening to a message.

Where major event days (MED) have been declared these dates have been entered in the relevant monthly tab with formulas in place to exclude these calls from the STPIS calculations. Calls related to specific excluded outages, as outlined in Appendix F of the RIN, are not removed as it is not possible to identify the exact number of calls related to a particular outage in the CISCO telephony system.

All daily totals are shown in each of the monthly tabs of the main spreadsheet and enable entry of daily data to be entered against the parameters listed in Table 6.7.1, being:

- Number of calls received (after removing excluded events)
- Number of calls answered in 30 seconds (after removing excluded events

Assumptions

No assumptions were made.

Estimated Information

Ergon Energy has provided actual information in Table 6.7.1 for the 2019-20 Regulatory Year.

Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.

Explanatory Notes

BOP - 6.9 STPIS GSL

Table 6.9.1 - Guaranteed Service Levels - Jurisdictional GSLScheme

Compliance with the RIN Requirements

Ergon Network has prepared information provided in Template 6.9 STPIS GSL, Table 6.9.1 Guaranteed Service Levels - Jurisdictional GSL Scheme in accordance with the RIN requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the RIN.

Ergon Network has not populated information in relation to Guaranteed Service Levels - AER GSL Scheme which is greyed out and not applicable to if for the regulatory control period.

Where GSL parameters that do not fit within the provided sub-tables provided, headings have been entered and the relevant parameter(s) identified.

Sources

Ergon Energy Network has sourced data from Cherwell for the financial year 2019-20.

DMK530 GSL Report: Claims Periodic Reporting

Methodology

Data presented to the AER in meeting requirements of Template 6.9.1 Guaranteed Service Levels - Jurisdictional GSL Scheme have been presented in accordance with Queensland Electricity Distribution Network Code (EDNC) requirements and definitions unless otherwise stipulated under the AERs RIN issued.

Both numbers for Volumes and Value of Jurisdictional GSL are directly related to the count and sum of payments as identified and recorded as approved in the respective GSL system (Cherwell).

Report Used: DMK530 GSL Report: Claims Period Reporting The Report was run on the date paid of GSL.

The report was run for the Financial Year 2019-20

- ALL GSL PAID Shows count of Claims and \$ values for claims paid grouped by GSL Type
- CUST GSL PAID Shows count of Claims and \$ values for claims paid grouped by GSL Type for Customer Initiated Claims
- CUST REJ Shows the total number of claims received (based on date reported) and rejected (based on date rejected) grouped by GSL Type for Customer Initiated Claims

• DETAILS - Shows claims details where any of the dates are within the selected date range

DATES USED IN THIS REPORT

- Date Reported Date first recorded in Cherwell i.e. when we first heard about the Claim and the GSL PTJ start date.
- Date Occurred Date the actual breach occurred.
- Date Accepted Date Cherwell investigators accepted the claim as valid and payable.
- Date Paid Date the extract from Cherwell to Ellipse was produced to settle the claim.
- Date Rejected Date the Cherwell Investigator rejected the claim.
- Validation of Data

Reconciled GSL Payments with Ellipse and Cherwell.

Where conflicting information has been identified in the report, manual checks of the Cherwell system has taken place to verify whether payment has been made. As a result of this, there can be cases whereby a GSL status may indicate it has not been paid (e.g. Withdrawn) however both the Date Paid and Actual Amount Paid are populated; in these cases the GSL is likely to have been paid and verification has taken place to ensure data is true and correct.

Assumptions

No assumptions were made.

Estimated Information

Ergon Energy has provided actual information in Table 6.9.1 for the 2019-20 Regulatory Year.

Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.

Explanatory Notes

BOP - 7.8 Avoided TUOS Payments

Table 7.8.1 - Avoided TUOS Payments

Compliance with the RIN Requirements

Ergon Energy has prepared the information provided in Template 7.8 Avoided TUOS Payments, Table 7.8.1 Avoided TUOS payments in accordance with the RIN requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the RIN.

Ergon Energy has populated all variables for cells shaded yellow as required by the RIN, with amounts represented as \$0's, nominal.

Sources

Ergon Energy has sourced a list of invoices from retailers from the Market Transaction Centre.

Methodology

The methodology used in calculating the avoided cost payments is described in the Information Guide for Standard Control Services Pricing. The payments are calculated by the Market Transaction Centre using the process which is described below.

Ergon Energy confirms that in accordance with RIN requirements Avoided TUOS payments are taken to be payments made by Ergon Energy in accordance with clause 5.5(h) of the National Electricity Rules (NER).

Avoided TUOS expense is based on the list of invoices from retailers for the 2019-20 regulatory year.

Embedded Generators

Embedded generator (EG) is taken to have the meaning given in the NER.

Furthermore, clause 5.5(h) of the NER requires Distribution Network Service Providers (DNSPs) to calculate "avoided charges for the locational component of prescribed TUOS services", and clause 5.5(i) requires DNSPs to calculate the amount to be passed through to an EG. This is done by:

- Determining the charges for the locational component of prescribed TUOS services that would have been payable by the DNSP for the relevant financial year "if the EG had not injected any energy at its connection point during that financial year"; and
- Determining "the amount by which the charges calculated in subparagraph (1) exceed the amount for the locational component of prescribed TUOS services actually payable by the DNSP, which amount will be the relevant amount for the purposes of paragraph (h) [clause 5.5(h)]".

Avoided TUOS payments are made by Ergon Energy to EGs who have sought access to Ergon Energy's distribution network under clause 5.5 of the NER and who are registered as a Generator Rules Participant.

Also refer to the supplementary attachment for Revenues, for a further breakdown of DUOS and TUOS.

Market network service providers

Market Network Service Provider is taken to have the meaning given in the NER.

A Network Service Provider who has classified any of its network services as a market network service in accordance with Chapter 2 and who is also registered by AEMO as a Market Network Service Provider under Chapter 2.

Other (avoided TUOS payment)

Other (avoided TUOS payment) are any avoided TUOS payment made by a person that is not an EG or Market Network Service Provider

Ergon Energy has nil other (avoided TUOS payment) to report.

Assumptions

No assumptions were made.

Estimated Information

Ergon Energy has provided actual information in Table 7.8.1 for the 2019-20 regulatory year.

Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.

Explanatory Notes

BOP - 7.10 Juris Scheme

Table 7.10.1 - Jurisdictional Scheme Payments

Compliance with the RIN Requirements

Ergon Energy has prepared the information provided in Template 7.10 Jurisdictional Schemes, Table 7.10.1 Jurisdictional Scheme Payments in accordance with the RIN requirements, including the Principles and Requirements set out in Appendix A and Definitions in Appendix F to the RIN.

Ergon Energy has populated all variables for cells shaded yellow as required by the RIN.

Jurisdictional Scheme Payments are payments Ergon Energy is obliged to pay under an approved Jurisdictional Scheme, which has the meaning given in clause 6.18.7A(d) of the National Electricity Rules (NER).

Total Scheme Payments are reported in \$0's, nominal.

Sources

Ergon Energy has extracted data from the Ellipse system for the Solar Feed-in-tariff (FiT) Bonus Scheme and the Electricity Industry levy.

Ergon Energy has sourced data from PEACE for the credits provided to the isolated network in relation to the solar bonus scheme.

Methodology

Jurisdictional schemes relevant to Ergon Energy are programs implemented by state governments that place legislative obligations on DNSPs.

Ergon Energy's annual Pricing Proposal sets out how jurisdictional scheme amounts (i.e. the amount(s) we are obligated to pay under the scheme) for each approved jurisdictional scheme are to be passed on to customers and any adjustments to tariffs resulting from the over or under recovery of those amounts. Clause 6.18.2(b)(6B) of the NER also requires our Pricing Proposal to describe how each approved jurisdictional scheme that has been amended since the last jurisdictional scheme approval date meets the jurisdictional scheme eligibility criteria.

Current Jurisdictional Schemes relevant to Ergon Energy are:

 schemes set out explicitly under clause 6.18.7A(e) of the NER. For Queensland, this currently includes the Solar Bonus Scheme, which obligates Ergon Energy to pay a FiT for energy supplied into our distribution network from specific micro-embedded generators (PVs). Ergon Energy became subject to the Solar Bonus Scheme on 21 May 2015 (i.e. the date we submitted our 2015-16 Pricing Proposal to the AER). Since that time, the jurisdictional scheme has not been amended; and

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

Description of Cost Recovery Method

Attachment 14 of the AER's final distribution determination sets out the requirements Ergon Energy must comply with under clause 6.18.7A of the NER. Specifically, Ergon Energy must:

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

For the 2019-20 regulatory year, this method is outlined in section 3.3.3 of our approved 2019-20 Pricing Proposal.

Ergon did not receive jurisdictional revenue from network tariffs in 2019-20 (to offset the 2019-20 solar expense). Ergon did receive solar grant revenue to offset this loss of revenue from network tariffs.

The true-up calculation is based on a two year lag time. The last time a jurisdictional tariff was applied was in 2016-17, and the true-up was in 2018-19. No jurisdictional tariff was applied in 2017-18 (the first year of the three year solar grant revenue). Therefore no true-up was needed in 2019-20 to the jurisdictional tariff.

The solar grant revenue was based on the solar expense for 2019-20. There was no amount for over recovery in the 2019-20 calculations. The grant revenue was released from unearned revenue from the balance sheet on a monthly basis.

As part of our 2019-20 annual Pricing Proposal, we will apply a true-up to account for any difference between our actual 2019-20 jurisdictional scheme revenue and our actual 2019-20 jurisdictional scheme payments (for both the FIT and the energy industry levy). On 31 May 2017 Ergon Energy received a Ministerial direction not to pass to customers any feed-in tariff jurisdictional scheme amounts not recovered between 1 July 2017 and 30 June 2020.

Total Scheme Payments

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

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

- pay to a person;
- pay into a fund established under an Act of a participating jurisdiction;
- credit against charges payable by a person;
- reimburse a person; less any amounts recovered by Ergon Energy from any person in respect of those amounts other than under the NER.

All values have been extracted from Ellipse.

Full year values have been extracted for the Solar Bonus Scheme and the Inter-Company Solar Bonus. The full year statutory amounts for these elements have been prepared on an unbilled basis.

The Electricity Industry levy was extracted from Ellipse using Ellipse Activity and element code. The levy is one payment for the year and is therefore presented on a billed basis.

Isolated Network adjustment to the annual Solar Bonus Scheme amount

- A report (DMK535) was run on PEACE data to identify the solar bonus credits processed between 7 June 2018 and 6 June 2019 for NMIs on the isolated network. The following filters were entered into this report:
- feeder class ERGIS (this filter restricts the data to NMIs on the isolated network);
- Network Tariff Codes of NVG* and GVG* (These tariff codes are used for embedded generation. The symbol * is used to pick up all variations of the NVG tariff code: eg NVG0, NVGC0, NVGX0, NVG1, NVGC1, NVGX1, NVG2, NVGC2, NVGX2);
- sub charge source description of Network DUoS Volume Charge (this filter restricts the data to the volume charges relating to the previously listed tariff codes);

The unfiltered (DMK535) report shows the dollar credits and the associated energy exported and used for all NMIs.

- 7 June 2018 to 6 June 2019 corresponds to the dates used to generate statement of accounts (i.e. billing statements) for the 2019-20 financial year.
- The PEACE credits and energy exported shown in the report were then summed to give annual totals.

• The full year Solar Bonus Scheme value was reduced by the annual total for the Isolated Network Adjustment.

Assumptions

No assumptions were made.

Estimated Information

Ergon Energy has provided actual information in Table 7.10.1 for the 2019-20 regulatory year.

Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.

Explanatory Notes

BOP - 7.11 DMIS DMIA

Table 7.11.1 - DMIA - Projects Submitted for Approval

Compliance with the RIN Requirements

The AER approved the current DMIA allowance of \$1 million per annum for the 2015-2020 regulatory period.

The actual spend for DMIA projects in 2019-20 did exceed the \$1 million annual allowance. This was to absorb underspend for the whole 2015-20 regulatory period due to slower than expected expenditure on committed projects.

Template 7.11 - Demand Management Incentive Scheme for 2019-20 has been completed outlining the DMIA projects submitted for approval as part of Schedule 1.

Sources

DMIA - CAM Recast data extract B-FN-FP-0614-Transactions DMIA PROD 04082020

Methodology

The information provided in Table 7.11., contains DMIA projects submitted for approval and is consistent with what is reported in Schedule 1 of the RIN. Operating and capital expenditure (direct cost) for each project is obtained from CAM Recast data extract B-FN-FP-0614-Transactions DMIA PROD 04082020. For DMIA, each project can be identified by its unique project number.

Assumptions

No assumptions were made.

Estimated Information

Ergon Energy has provided 'Actual Information' (as per the AER's defined term) in relation to all variables contained in this Template.

Explanatory Notes

BOP - 8.1 Income

Table 8.1.1 - Income Statement

Table 8.1.1.1 - Revenue

Table 8.1.1.2 - Expenditure

Table 8.1.1.3 - Profit

Compliance with the RIN Requirements

Ergon Energy has prepared the information provided in Template 8.1 Income, Table 8.1.1.1 Revenue, Table 8.1.1.2 Expenditure and Table 8.1.1.3 Profit in accordance with the RIN requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the RIN.

All disclosures have been reconciled to the Audited Statutory Accounts of Ergon Energy's Parent Entity, Energy Queensland Limited. Please refer to Note 26 and 28(B) of the Energy Queensland Limited (EQL) Audited Statutory Accounts.

Ergon Energy has populated all variables for cells shaded yellow as required by the RIN.

Also of note, the item "Pass through revenue (F-factor)" is not applicable to Ergon Energy.

Ergon Energy has not populated information in relation to Negotiated Services which is greyed out and not applicable during the regulatory control period.

Sources

Ergon Energy has sourced data from its SAP financial reporting system for the statutory amounts, and from its Ellipse financial reporting system for the other amounts, for the relevant regulatory year. The Ellipse amounts are from the CAM Recast data extract 0548.

Methodology

REVENUE

The basis for the Statutory Column in the AR RIN Income Statement was a reconciliation performed between the data in the RIN Regulatory Account Balances report and the Statutory closed group accounts - Note 28(B). A \$1.2m difference was identified due to the Loss Sale / Disposal of Assets element. In the RIN Account Balances Trial Balance data, this is an expense, but in the statutory accounts it forms part of the 'Gain on disposal of property, plant and equipment category'. This category includes both gains and losses. The \$1.2m was mapped to Gain Income, and it reconciles to the Statutory accounts.

Distribution Revenue

Distribution Revenue is Revenue earned from the provision of SCS; ACS and excludes capital contributions. Ergon Energy does not have negotiated services to consider in this calculation.

Revenue is measured at the fair value of the consideration received or receivable. As a network service provider, Ergon Energy receives Distribution Use of System (DUOS) income.

As per AASB 15 Revenue from Contracts with Customers, the Economic Entity is using accrual accounting for unbilled network charges.

Values have been extracted from SAP for the statutory amounts, and the other values are from the Ellipse RATS Recast data.

Within the audited statutory accounts column, the revenue recognised is inclusive of revenue from regulated and unregulated services. The statutory accounts have been prepared on an unbilled basis in 2019-20. The adjustments column consists of:

- Unregulated revenue (identified by the activity segment of the chart of accounts);
- DUOS cross boundary revenue;
- The value of SCS distribution revenue is calculated using total DUOS revenue less; and
- DUOS cross boundary revenue.

This calculation enables the SCS distribution revenue to be presented on an unbilled basis.

The ACS revenue is obtained from a combination of activity codes and products in the general ledger. ACS revenue includes Streetlight revenue and Metering services revenue. The ACS revenue is reported on an accrual basis.

Cross Boundary Revenue

Cross boundary revenue is the inter- Distribution Network Service Provider (DNSP) revenue which is revenue from another DNSP for using Ergon Energy distribution network.

DUOS & TUOS revenue received from Essential Energy for 33kV and 66kV lines, based on metered data for 2019-20.

The adjustments column consists of:

DUOS cross boundary revenue;

TUOS cross boundary revenue

Cross boundary revenue is from billing information. Cross boundary revenue does not include an adjustment for Jurisdictional revenue in 2019-20. Jurisdictional revenue was replaced by the government grant for the Solar Bonus Rebate.

Contributions

Capital contributions (contribution) is cash or in kind contributions to capital expenditure (capex) projects and gifted assets.

Contributions relate to revenue in accordance with Ergon Energy's Connections Policy for SCS, and Contributions received for the delivery of ACS (such as Large Customer Connections and Real Estate Developments).

Cash capital contributions are received from small customers for subdivisions and other small customer initiated capital works (CICW) and gifted assets relate to Urban subdivisions and Commercial and Industrial customers.

Contributions for ACS are identifiable by separate codes within Ergon Energy's general ledger.

The adjustment between the Audited Statutory Accounts and the Regulated Distribution business relates to contributions received from unregulated sources, including the isolated networks.

Interest income

Ergon Energy has retained a Working Capital Facility account, although no interest is earned on this account. Interest is earned on its CBA transactional bank account.

In accordance with Ergon Energy's 2015-20 Final Distribution Determination - Attachment 13 (Classification of Services) interest revenue is not a direct control service, therefore it has been reported in the Adjustments column.

Jurisdictional scheme amounts

Ergon Energy has two approved Jurisdictional Schemes being the Feed-in Tariff, and the Electricity Industry Levy (refer to Section 10 BOP - 7.10 Jurisdictional Scheme).

The Jurisdictional scheme amount relating to the Feed-in Tariff forecast recovery has been extracted from Ellipse using codes for Jurisdictional Scheme Use of System Charge, and Intercompany Use of System Jurisdictional Scheme. No amount (revenue) was in Ellipse for the Australian Energy Market Commission (AEMC) levy for 2019-20.

The full year statutory amounts for these elements have been prepared on an unbilled basis.

The adjustments column consists of:

Government grant revenue related to the Solar Bonus

The grant revenue is identified by an element in the Ellipse system. It was adjusted out of Other Revenue.

The amount reported in Template 7.8 Jurisdictional scheme payments for the Queensland Solar Bonus Scheme (SBS) is the SBS expense less a small adjustment for the SBS Isolated component. The SBS expense reconciles with the adjustment amount in the Grant revenue. In prior years this wouldn't reconcile due to an over recovery amount in the monthly journal. There was no over recovery in the 2019-20 journals. The under or over recovery was always based on a two year lag time referring to the tariff in the earlier year. The last year of Jurisdictional tariffs was in 2016-17, therefore the over recovery was in 2018-19. 2017-18 had no Jurisdictional tariffs, this was the first year of the three year solar grant funding from the Qld Government.

Profit from sale of fixed assets

The disposal of an item of Property, Plant & Equipment (PP&E) may occur in a variety of ways (e.g. by sale or scrapping at the end of its useful life). Ergon Energy's Asset Management Policy and Strategies discusses when assets should be disposed i.e. after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset.

In accordance with Ergon Energy's 2015-20 Final Distribution Determination, Attachment 13 (Classification of Services) the sale of inventory, asset or scrap is a non-distribution service that is unregulated. Therefore, the profit on sale of fixed assets has been reported in the Adjustments column (as an unregulated service) as it does not meet the definition for Service Segments (SCS, ACS, and Negotiated Services).

The figure reported in the statutory accounts is the amount of proceeds that exceeds the carrying amount of the item.

TUOS revenue

All values for TUOS revenue have been extracted from Ellipse, using the codes for TUOS Revenue, and Inter-Company TUOS Revenue. The external service provider has supplied information on an unbilled basis. The statutory accounts for TUOS revenue have been prepared on an unbilled basis in 2019-20. The adjustments column consists of:

Unregulated revenue (relating to the use of the 220kV Network);

- TUOS cross boundary revenue.
- The TUOS cross boundary revenue adjustment is from billing information.

Pass through revenue (F-factor)

This category is not applicable to Ergon Energy (it is a Victorian specific factor). This is not a row in the 2019-20 income statement template, and Ergon Energy has no data to report.

Other Revenue

The values in other revenue are from a range of Inter-Company transactions, and a variety of receipts. The majority of other revenue is from unregulated activities.

The adjustments column consists of:

- Unregulated revenue; and
- Government grant revenue related to the solar bonus

None of the Other revenue is classed as a SCS. The remainder is ACS revenue. The ACS revenue is categorised across service classifications according to their classification in the Ellipse general ledger.

EXPENDITURE

TUOS expenditure

TUOS costs are Transmission charges to be paid to transmission network service providers.

TUOS expense was obtained from an examination of the charges levied upon Ergon Energy and those passed on to retailers. TUOS expense is presented on an accrual basis from information in the General Ledger.

The adjustments column consists of:

- Cross Boundary charges (Energex);
- Non-Regulated charges (use of 220kV network)

The AER's Final Distribution Determination also requires Ergon Energy to maintain a TUOS unders and overs account, and to submit a record of all transmission related payment to the AER as part of its Annual Pricing Proposal

Avoided TUOS expenditure

Avoided TUOS payments are the payments by Ergon Energy in accordance with clause 5.5 (h) of the National Electricity Rules (NER).

Avoided TUOS expense is based on the list of invoices from retailers for the 2019-20 regulatory year.

The adjustments column consists of:

- Prior years avoided TUOS payments;
- Prior years accrual reversals;

- Current year accrual;
- A credit amount related to demand management for Barcaldine

These payments agree to those Avoided Transmission Use of System Payments provided in Template 7.8 Avoided TUOS Payments (refer to Section 9 BOP - 7.8 Avoided TUOS Payments).

Cross boundary expenditure

Ergon Energy notes that the definition for 'Cross Boundary Charges', is the cost of using another DNSP's distribution network therefore Ergon Energy has included costs of using Energex's distribution network and costs for use of Ergon Energy's unregulated 220kV network. This is because under its Final Distribution Determination, Ergon Energy is allowed to pass through charges it incurs for use of Ergon Energy's unregulated 220kV network as a Designated Pricing Proposal Charge or 'TUOS' charge.

Depreciation

The Statutory approach for calculating depreciation has been used on a straight line basis by reference to the useful life of each item of PP&E, other than freehold land and easements which are not depreciated. An assessment of useful lives is performed annually. Statutory amounts are from SAP and all other amounts are from Ellipse.

The audited statutory accounts column includes depreciation and amortisation for Ergon Energy. It consists of amortisation of intangible assets such as computer software, licenses and customer contracts and relationships, and depreciation for supply systems, power stations, buildings, and other plant and equipment, as well as impairment of non PP&E assets, i.e. Impairment of Doubtful Debts.

The audited statutory accounts column does not include fleet depreciation. The fleet depreciation is part of the fleet management fee (FMF) expense, and is the major component of the FMF. The fleet depreciation is identified by codes in the Asset Depreciation report that start with V for vehicle, and this is the basis for isolating the fleet depreciation expense from other assets.

The approach for reporting by Service Segment for depreciation expense is in accordance with the AER's email of 7 September 2016. It is a subset of the statutory depreciation, yet only for those assets relative to the distribution business.

The adjustments column relates to depreciation and amortisation of Ergon Energy's unregulated power station assets comprising isolated generation and distribution systems, and other unregulated assets.

Finance charges

The statutory column is mostly a Capitalised Interest credit.

Following the transfer of ownership of Ergon and Energex from the state to Energy Queensland Limited (EQL) on the 30 June 2016, transfers of debt for both DNSPs were made in order to comply with the Government Owned Corporations Regulation 2016 (Regulation).

The share of the State Government debt pool held by the DNSPs prior to the formation of the group was a liability held by each DNSP. In accordance with the Regulation, all DNSP debt (Queensland Treasury Corporation Loans) was transferred back to the Government debt pool. It was then transferred to the parent entity (EQL) at the carrying amount, such that: A share of Queensland debt is held in the EQL parent entity. Importantly, no debt raising costs were incurred by the DNSPs during 2019-20. No debt was raised or refinanced at the DNSP level.

Finance charges do not include any interest expense for long term debt or finance charges in 2019-20.

Interest expense is not a direct control service in the AER FDD Attachment 13, yet debt raising costs are an approved AER forecast cost.

The adjustments column consists of:

- Interest expense
- Capitalised Interest

Impairment losses

In accordance with Appendix A (Principles & Requirements) to the RIN any revaluations or adjustments for impairment made in the Audited Statutory Accounts must be recorded in the adjustments column in the Financial Information Templates.

Impairment losses in the Audited Statutory Accounts are a special non-recurring charge taken to write down an asset with an overstated book value.

There are no impairment losses in 2019-20.

Jurisdictional scheme amounts

Ergon Energy has two approved Jurisdictional Schemes being the Feed-in Tariff, and the Electricity Industry Levy (refer to Section 10 BOP - 7.10 Jurisdictional Scheme).

The Feed-in Tariff expenses have been extracted from Ellipse. Full year values have been extracted for the Solar Bonus Scheme and the Inter-Company Solar Bonus. The full year statutory amounts for these elements have been prepared on an unbilled basis.

The Electricity Industry levy was extracted from Ellipse using a specific Ellipse code. The levy is one payment for the year and is presented on a billed basis.

Amounts are fully recoverable via charges to customers under SCS services.

In the annual statutory accounts, the feed-in tariff is classified as Statutory expenditure. The Electricity Industry levy was classified as Other expenditure. Therefore, the statutory value for Jurisdictional expenditure is the value of the feed-in-tariff.

The adjustment column consists of:

- Electricity Industry levy; and
- Exclusion of Isolated Solar NMI

Loss from sale of fixed assets

In accordance with Ergon Energy's 2015-20 Final Distribution Determination, Attachment 13 (Classification of Services) the sale of inventory, asset or scrap is a non-distribution service that is unregulated. Therefore, the loss on sale of fixed assets has been reported in the Adjustments column (as an unregulated service) as it does not meet the definition for Service Segments (SCS, ACS, and Negotiated Services).

The disposal of an item of PP&E may occur in a variety of ways (e.g. by sale or scrapping at the end of its useful life). Ergon Energy's Asset Management Policy and Strategies discusses when assets should be disposed i.e. after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset.

Maintenance expenditure

Maintenance expenditure are those expenditures which are directly and specifically attributable to Maintenance that are not capex.

The Ergon Energy general ledger records maintenance costs in a series of codes that differentiate between SCS, ACS and unregulated based on the services they provide in accordance with the AER's Final Distribution Determination and the NER.

The identification of maintenance costs is performed by mapping these codes into their appropriate RIN reporting category

Operating expenditure excluding maintenance expenditure

The Ergon Energy general ledger records operating costs in a series of codes that differentiate between SCS, ACS and unregulated based on the services they provide in accordance with the AER FDD and the NER.

The identification of maintenance costs is performed by mapping these codes into their appropriate RIN reporting category.

Other

The adjustment relates to unclassified costs of operating isolated and unregulated assets and "Not Proceeding Network Initiated Capital Works".

PROFIT

Profit before tax is calculated (total revenue less, total expenses).

Income tax expenses (/benefit) is calculated as 30.58% of profit before tax, for each Service Segment based on the services they provide in accordance with the AER FDD and the NER.

Profit after tax is calculated (Profit before less Income tax expenses (/ benefit)).

Assumptions

No assumptions were made.

Estimated Information

Ergon Energy has provided actual information in Table 8.1.1.1, Table 8.1.1.2 and Table 8.1.1.3 for the 2019-20 regulatory year.

Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.

Explanatory Notes

BOP - 8.2 CAPEX

Table 8.2.1 - CAPEX by Purpose - Standard Control Services 1

Compliance with the RIN Requirements

Expenditure

Ergon Energy has reported expenditure in table 8.2.1 <u>inclusive</u> of all SCS and ACS capital contributions (excluding public lighting) per RIN requirements.

Table 8.2.2 requires Ergon Energy to provide an explanation of the main drivers for material differences between forecast and actual expenditure for SCS that are identified in Table 8.2.1.

Differences are calculated in Table 8.2.1 - Capex by Purpose for all SCS categories presented therein.

Determination of whether differences are material aligns to the defined term 'Materiality' in paragraph 5 of the accounting standard AASB 108 as per the definition in Appendix F to the RIN. Generally, any material differences are those which are greater than 10% (between AER approved forecasts (adjusted for the impact of actual inflation outcomes) and Ergon Energy's reported actual amount).

Where the difference between forecast and actual expenditure shown in table 8.2.1 is a Material Difference the main factors driving the difference are entered in Table 8.2.2 Capex by Purpose - Material Difference Explanation.

Schedule 1 Para 1.5-1.8 also requires Ergon Energy to identify each difference (where the difference is equal to or greater than ±10 per cent) between the amount reported in the Financial Information Templates and the amount provided for in the 2015-20 Distribution Determination for the following:

- Total actual capex and total forecast capex.
- Explain the reasons for each difference identified

Sources

Expenditure

Capex is recorded by Ergon Energy as either Direct Purchases, or Project costs.

Direct purchases relate to the purchase of a complete asset from an outside supplier such as motor vehicles or computers, whereas a construction asset (primarily distribution assets) is treated as project costs.

Ergon Energy has developed a report this year which extracts the Capex spend data from the general ledger and draws in the project details from to the Ellipse Project Accounting module to provide one comprehensive summary of capex spend by purpose and asset class. This report includes both direct purchases and constructed WIP, and also provides a further breakdown by voltage for the purposes of allocating direct capex spend into voltage levels as described below.

This was the CAM Recast data extract "FIN084 Capex Spend" report.

Where the Project has been capitalised, Business Property Unit codes (BPU) are recorded against the Project to assign the asset category for capitalisation. A mapping process is undertaken to identify the AER asset category. This process also identifies unregulated Capex to be excluded.

Where the Project remains under construction and is yet to be capitalised, the types of assets under construction are ascertained using a number of methodologies, including extracting project information from the Ellipse estimating module, applying assumptions based on GL activity and utilising data from similar project types.

Once the information is extracted, the mapping tables are applied to convert the type of assets into the RIN asset categories per below methodologies and assumptions.

Methodology

Expenditure

Ergon Energy has reported forecast and actual Financial Information for SCS Capex by purpose, in categories reflective of those used in AER's final 2015-20 Distribution Determination for Ergon Energy.

Ergon Energy has sourced categories from Attachment 6 (Capital Expenditure) of the 2015-20 Distribution Determination, Table 6.3 (assessment of required capex by capex driver 2015-20), and notes capitalised overheads are presented as a separate category. As such, all other categories will be presented as directly attributable costs (exclusive of overheads).

Ergon Energy has reported expenditure in table 8.2.1 <u>inclusive</u> of all SCS and ACS capital contributions (excluding pubic lighting) per RIN requirements. Capital contributions are reported in the "Customer connections capex" line of the table, inclusive of the ACS contributed assets transferred into the SCS table in accordance with the AER requirements.

Ergon Energy has removed any sharing of assets from SCS reported expenditure. The definition requires Capex to be the amounts included in the Regulatory Asset Base for Ergon Energy. In Ergon Energy's Final Distribution Determination Attachment 2 (RAB), heading (Separation of ACS and unregulated assets) the AER removed the equivalent of the ACS usage value of assets from the RAB. This approach also meets requirements of Ergon Energy's AER approved CAM par 9.3, Treatment of Capital Expenditure and Shared Assets.

Capex - Actual

Ergon Energy makes the below comments in relation to the process undertaken to report actual Capex by Categories:

Metering

Of note, there has been a reclassification of metering services from standard control to alternative control for Type 5 & 6 metering as outlined in Ergon Energy's 2015-20 Final Distribution

Determination at Attachment 13 (Classification of Services). As such, Type 5 & 6 metering will not be reported in Table 8.2.1, rather they will be reported in Table 8.2.3 as an ACS. Caution would need to be taken when comparing metering costs for SCS with prior years.

Non-network

Non-network capex is extracted from projects and also from direct purchases.

Capitalised overheads

Within the Ergon Energy Recast extract, shared costs that have been charged via the overhead allocation process in accordance with the CAM are identified by an element code of 8100 within the chart of accounts hierarchy. The numbers shown against the category, 'Capitalised Overheads' are a summary of these overhead costs.

Capital Contributions

Total capital contributions reported in table 8.2.1 agrees to the amount reported in table 8.2.5 (this is the total SCS and ACS contributions in accordance with the AER requirements).

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

Voltage levels

Ergon Energy has assigned capex to subtransmission, High Voltage (HV), Low Voltage (LV), and other in accordance with CA RIN definitions in the absence of AR RIN definitions and to ensure alignment in reporting between RIN's. This information is provided in the FIN084 capex report summarised by each GL activity code.

Capex has been categorised into Substransmission, HV, LV and other using the following logic:

- Subtransmission: where the nominal voltage is above 33kV, or transforms any voltage to levels above 33kV;
- High Voltage: where the nominal voltage is at or below 33 kV and above 11 kV, or distribute electricity at voltage levels between the sub transmission and LV sections of the network;

• Low Voltage: A line that is not a substransmission line or a HV feeder or an overhead service wire or an underground service cable.

The dissection by voltage class is prepared by reference to the Asset Register asset class which gives the voltage of each distribution or subtransmission asset. These are appropriately summarised and used to populate the relevant table.

Deriving the voltages by mapping the asset class is possible for those projects with BPUs. Those without a BPU are split through either one of the 2 steps below:

- All street lighting, metering and non-network ('C3000', 'C3050', 'C3100', 'C3150', 'C3200', 'C3250', 'C3400', 'C3450') capex is reported as other voltage
- Those without a BPU and not under one of the above activity codes are split by applying the same proportions as those projects with BPU's for the relevant activity code linked to that project.

The second step in the process outlined above is different to the methodology in previous years.

Capital contributions are allocated to voltage levels by applying the same proportions as ACS connections used in table 8.2.3. This methodology is considered appropriate given the adjustment made to transfer ACS capital contributions to be reported as SCS in accordance with the requirements and definitions specified by the AER.

Other adjustments

The capex numbers are also adjusted for the proportion of those assets that will be used to provide services other than standard control capex. The amount of the reduction is determined after consideration of the appropriate drivers, including headcounts at different locations, fleet costs, and communication cable length.

The movement in provisions by asset class is drawn from the calculations performed for the Benchmarking RIN which identifies the capex component for each movement. The total of these movements are then pro-rated across the various asset classes.

Capex - CPI adjusted Forecast

Ergon Energy has used the forecasts contained in its 2015-20 Distribution Determination, adjusted for the impact of actual inflation outcomes to be in the same dollar terms as the actual data reported

The adjusted amounts were calculated by allowing for a change between forecast and actual Consumer Price Index (CPI) for the current regulatory year in the Post Tax Revenue Model (PTRM).

The actual CPI entered into the PTRM is consistent with Ergon Energy's annual Pricing Proposal and is based on the relevant Australian Bureau of Statistics (ABS) December to December CPI weighted average of 8 capital cities result sourced from the ABS website.

In order to disaggregate the forecasts, a separate Excel spread sheet was produced to recast the AER approved forecast Capex and forecast capital contributions into the RIN formats and into current year dollar terms. These figures were then reconciled against the forecast Capex and forecast capital contribution figures derived at the macro level from the CPI adjusted PTRM noted above.

Assumptions

Voltage split

The voltages for projects with a BPU were derived by mapping the asset classes to the applicable voltage category for those assets.

For all augmentation, replacement and connections projects without a BPU, voltages were derived by applying the same proportions as those calculated on projects with a BPU summarised at the GL activity level.

This was considered appropriate given the nature of these capital projects and additional validation was undertaken on these assumptions.

The largest line item impacted in table 8.2.1 was replacement capex of which \$204M had no BPU.

Estimated Information

Expenditure

Ergon Energy has provided actual information in Template 8.2 for the current regulatory year.

Where information is provided Ergon Energy does so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.

Explanatory Notes

Expenditure

Table 8.2.1 - CAPEX by Purpose - Standard Control Services 2

Compliance with the RIN Requirements

Related Party Margin

NB. Ergon Energy has reported expenditure in table 8.2.1 <u>inclusive</u> of all SCS and ACS capital contributions (excluding public lighting) per RIN requirements.

Table 8.2.2 requires Ergon Energy to provide an explanation of the main drivers for material differences between forecast and actual expenditure for SCS that are identified in Table 8.2.1.

Differences are calculated in Table 8.2.1 - Capex by Purpose for all SCS categories presented therein.

Determination of whether differences are material aligns to the defined term 'Materiality' in paragraph 5 of the accounting standard AASB 108 as per the definition in Appendix F to the RIN. Generally, any material differences are those which are greater than 10% (between AER approved forecasts (adjusted for the impact of actual inflation outcomes) and Ergon Energy's reported actual amount).

Where the difference between forecast and actual expenditure shown in table 8.2.1 is a Material Difference the main factors driving the difference are entered in Table 8.2.2 Capex by Purpose - Material Difference Explanation.

Schedule 1 Para 1.5-1.8 also requires Ergon Energy to identify each difference (where the difference is equal to or greater than ±10 per cent) between the amount reported in the Financial Information Templates and the amount provided for in the 2015-20 Distribution Determination for the following:

- Total actual capex and total forecast capex.
- Explain the reasons for each difference identified

Sources

Related Party Margin

Capex is recorded by Ergon Energy as either Direct Purchases, or Project costs.

Direct purchases relate to the purchase of a complete asset from an outside supplier such as motor vehicles or computers, whereas a construction asset (primarily distribution assets) is treated as project costs. With constructed projects, one of two data sources is used depending upon whether the project is complete and capitalised into the fixed asset register or whether it remains incomplete.

Ergon Energy has therefore drawn Capex data from three principle sources:

- Ergon Energy's general ledger;
- Ellipse Project Accounting module; and
- Excel worksheet for categorisation of WIP construction assets based on Ellipse Estimating module data.

In all cases the total Capex is reconciled back to the totals contained in the general ledger.

Direct Purchases were extracted from a transactional level report direct from the general ledger which provides details about the asset purchased. This permits reporting in the appropriate asset category as required in the Regulatory Accounting Statements.

Where the Project has been capitalised, Business Property Unit codes (BPU) are recorded against the Project to assign the asset category for capitalisation. A mapping process is undertaken to identify the AER asset category. This process also identifies unregulated Capex to be excluded.

Where the Project remains under construction and is yet to be capitalised, details are extracted from the Ellipse estimating module to ascertain the types of assets under construction.

Once the information is extracted, the mapping tables are applied to convert the type of assets into the RIN asset categories per below methodologies and assumptions.

Methodology

Related Party Margin

'Related Party Margin Expenditure' comprises only profit margins or management fees paid directly or indirectly to related party contractors (not including actual incurred expenses of the related party contractor) for the regulatory reporting period.

Ergon Energy does not have any profit margins or management fees paid directly or indirectly for related party contracts to report.

Assumptions

Related Party Margin

No assumptions were made.

Estimated Information

Related Party Margin

Ergon Energy has provided actual information in Template 8.2 for the current regulatory year.

Where information is provided Ergon Energy does so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.

Explanatory Notes

Related Party Margin

Table 8.2.2 - CAPEX by Purpose - Material DifferenceExplanation

Compliance with the RIN Requirements

No applicable, please refer to table AR 8.2.2 for explanation of variance.

Sources

No applicable, please refer to table AR 8.2.2 for explanation of variance.

Methodology

No applicable, please refer to table AR 8.2.2 for explanation of variance.

Assumptions

No applicable, please refer to table AR 8.2.2 for explanation of variance.

Estimated Information

Expenditure

Ergon Energy has provided actual information in Template 8.2 for the current regulatory year.

Where information is provided Ergon Energy does so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.

Explanatory Notes

No applicable, please refer to table AR 8.2.2 for explanation of variance.

Table 8.2.3 - CAPEX Other 1

Compliance with the RIN Requirements

Expenditure

Ergon Energy has prepared the information provided in Template 8.2 Capex in accordance with the RIN requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the RIN.

Ergon Energy has populated all variables for cells shaded yellow as required by the RIN.

Ergon Energy has reported expenditure in table 8.2.1 <u>inclusive</u> of all SCS and ACS capital contributions (excluding public lighting) per RIN requirements. Capital contributions are reported in the "Customer connections capex" line of the table, inclusive of the ACS contributed assets transferred into the SCS table in accordance with the AER requirements.

Table 8.2.2 requires Ergon Energy to provide an explanation of the main drivers for material differences between forecast and actual expenditure for SCS that are identified in Table 8.2.1.

Differences are calculated in Table 8.2.1 - Capex by Purpose for all SCS categories presented therein.

Determination of whether differences are material aligns to the defined term 'Materiality' in paragraph 5 of the accounting standard AASB 108 as per the definition in Appendix F to the RIN. Generally, any material differences are those which are greater than 10% (between AER approved forecasts (adjusted for the impact of actual inflation outcomes) and Ergon Energy's reported actual amount).

Where the difference between forecast and actual expenditure shown in table 8.2.1 is a Material Difference the main factors driving the difference are entered in Table 8.2.2 Capex by Purpose - Material Difference Explanation.

Schedule 1 Para 1.5-1.8 also requires Ergon Energy to identify each difference (where the difference is equal to or greater than ±10 per cent) between the amount reported in the Financial Information Templates and the amount provided for in the 2015-20 Distribution Determination for the following:

- Total actual capex and total forecast capex.
- Explain the reasons for each difference identified

Sources

Expenditure

Capex is recorded by Ergon Energy as either Direct Purchases, or Project costs.

Direct purchases relate to the purchase of a complete asset from an outside supplier such as motor vehicles or computers, whereas a construction asset (primarily distribution assets) is treated as project costs.

Ergon Energy has developed a report this year which extracts the Capex spend data from the general ledger and draws in the project details from to the Ellipse Project Accounting module to provide one comprehensive summary of capex spend by asset class. This report includes both direct purchases and constructed WIP, and also provides a further breakdown by voltage for the purposes of allocating direct capex spend into voltage levels as described below.

This was the CAM Recast data extract "FIN084 Capex Spend" report.

Where the Project has been capitalised, Business Property Unit codes (BPU) are recorded against the Project to assign the asset category for capitalisation. A mapping process is undertaken to identify the AER asset category. This process also identifies unregulated Capex to be excluded.

Where the Project remains under construction and is yet to be capitalised, the types of assets under construction are ascertained using a number of methodologies, including extracting project information from the Ellipse estimating module, applying assumptions based on GL activity and utilising data from similar project types.

Once the information is extracted, the mapping tables are applied to convert the type of assets into the RIN asset categories per below methodologies and assumptions.

Methodology

Expenditure

Table 8.2.3 requires Ergon Energy to report actual and forecast capex that provides ACS.

The capex categories for ACS are pre-populated in Table 8.2.3 (Other Capex).

Ergon Energy has reported expenditure in table 8.2.3 <u>exclusive</u> of all capital contributions per RIN requirements.

Capex - Actual

Ergon Energy makes the below comments in relation to the process undertaken to report actual Capex by the categories for ACS as pre-populated in Table 8.2.3 (Other Capex).

Of note, the categories use AER services which align with Appendix A (AER final decision on classification of services for Queensland) of Attachment 13 (Classification of Services) in the 2015-20 Distribution Determination.

Public Lighting

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

Connection Services

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

This year the connections capex reported in ACS is negative due to a timing difference in recognising revenue from capital contributions when compared with the recognition of the capital expenditure it relates to. The transfer of the contributed assets from ACS to SCS (in accordance with the AER requirements for this schedule) resulted in negative capex being reported in 2019/20 which partially offsets the amount reported in the prior year.

Metering Services

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

Of note, there has been a reclassification of metering services from standard control to alternative control for Type 5 & 6 metering as outlined in Ergon Energy's 2015-20 Final Distribution

Determination at Attachment 13 (Classification of Services). As such, Type 5 & 6 metering will not be reported in Table 8.2.1, rather they will be reported in Table 8.2.3 as an ACS. Caution would need to be taken when comparing metering costs for SCS with prior years.

Ancillary Network Services

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

Negotiated Services

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

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

Voltage levels

Ergon Energy has assigned capex to subtransmission, HV, LV, and other in accordance with CA RIN definitions in the absence of AR RIN definitions and to ensure alignment in reporting between RIN's. This information is provided in the FIN084 capex report summarised for each activity code.

Capex has been categorised into Substransmission, HV, LV and other using the following logic:

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

The dissection by voltage class is prepared by reference to the Asset Register asset class which gives the voltage of each distribution or subtransmission asset. These are appropriately summarised and used to populate the relevant table.

Deriving the voltages by mapping the asset class is possible for those projects with BPUs. Those without a BPU are split through either one of the 2 steps below:

- All street lighting, metering and non-network ('C3000', 'C3050', 'C3100', 'C3150', 'C3200', 'C3250', 'C3400', 'C3450') capex is reported as other voltage.
- Those without a BPU and not under one of the above activity codes are split by applying the same proportions as those projects with BPU's for the relevant activity code linked to that project.

The second step in the process outlined above is different to the methodology in previous years.

Capital contributions are allocated to voltage levels by applying the same proportions as ACS connections used in table 8.2.3. This methodology is considered appropriate given the adjustment made to transfer ACS capital contributions to be reported as SCS in accordance with the requirements and definitions specified by the AER.

Capex - Forecast
Forecasts are adjusted for the impact of actual inflation outcomes to be in the same dollar terms as the actual data reported in the Financial Information Templates at Appendix B.

Actual Inflation applied is consistent with Ergon Energy's annual Pricing Proposal obtained from the ABS for the Weighted Average of 8 capital cities Dec - Dec period sourced from the ABS website.

Forecast capex costs for Public Lighting and Metering Services have been obtained from the Metering Capex data model, and Public Lighting pricing model issued with the 2015-20 Distribution Determination adjusted for the impact of actual inflation.

As the form of control for Ancillary network services and Connection Services are fee based or quoted services the AER did not approve Capex forecasts. As such, no financial values for forecasts are reported for these categories.

Assumptions

Voltage splits

The voltages for projects with a BPU were derived by mapping the asset classes to the applicable voltage category for those assets.

For all augmentation, replacement and connections projects without a BPU, voltages were derived by applying the same proportions as those calculated on projects with a BPU summarised at the GL activity level.

This was considered appropriate given the nature of these capital projects and additional validation was undertaken on these assumptions.

Estimated Information

Expenditure

Ergon Energy has provided actual information in Template 8.2 for the current regulatory year.

Where information is provided Ergon Energy does so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.

Explanatory Notes

Expenditure

Table 8.2.3 - CAPEX Other 2

Compliance with the RIN Requirements

Related Party Margin

Ergon Energy has prepared the information provided in Template 8.2 Capex in accordance with the RIN requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the RIN.

Ergon Energy has populated all variables for cells shaded yellow as required by the RIN.

NB. Ergon Energy has reported expenditure in table 8.2.1 <u>inclusive</u> of all SCS and ACS capital contributions (excluding public lighting) per RIN requirements.

Table 8.2.2 requires Ergon Energy to provide an explanation of the main drivers for material differences between forecast and actual expenditure for SCS that are identified in Table 8.2.1.

Differences are calculated in Table 8.2.1 - Capex by Purpose for all SCS categories presented therein.

Determination of whether differences are material aligns to the defined term 'Materiality' in paragraph 5 of the accounting standard AASB 108 as per the definition in Appendix F to the RIN. Generally, any material differences are those which are greater than 10% (between AER approved forecasts (adjusted for the impact of actual inflation outcomes) and Ergon Energy's reported actual amount).

Where the difference between forecast and actual expenditure shown in table 8.2.1 is a Material Difference the main factors driving the difference are entered in Table 8.2.2 Capex by Purpose - Material Difference Explanation.

Schedule 1 Para 1.5-1.8 also requires Ergon Energy to identify each difference (where the difference is equal to or greater than ±10 per cent) between the amount reported in the Financial Information Templates and the amount provided for in the 2015-20 Distribution Determination for the following:

- Total actual capex and total forecast capex.
- Explain the reasons for each difference identified

Sources

Related Party Margin

Capex is recorded by Ergon Energy as either Direct Purchases, or Project costs.

Direct purchases relate to the purchase of a complete asset from an outside supplier such as motor vehicles or computers, whereas a construction asset (primarily distribution assets) is treated as project costs.

Ergon Energy has developed a report this year which extracts the Capex spend data from the general ledger and draws in the project details from to the Ellipse Project Accounting module to provide one comprehensive summary of capex spend by asset class. This report includes both direct purchases and constructed WIP.

This was the CAM Recast data extract "FIN084 Capex Spend" report.

Where the Project has been capitalised, Business Property Unit codes (BPU) are recorded against the Project to assign the asset category for capitalisation. A mapping process is undertaken to identify the AER asset category. This process also identifies unregulated Capex to be excluded.

Where the Project remains under construction and is yet to be capitalised, details are extracted from the Ellipse estimating module to ascertain the types of assets under construction.

Once the information is extracted, the mapping tables are applied to convert the type of assets into the RIN asset categories per below methodologies and assumptions.

Methodology

Table 8.2.3 requires Ergon Energy to report actual and forecast capex that provides ACS.

The capex categories for ACS are pre-populated in Table 8.2.3 (Other Capex).

Ergon Energy has reported expenditure in table 8.2.3 <u>exclusive</u> of all capital contributions per RIN requirements.

Related Party Margin Expenditure

'Related Party Margin Expenditure' comprises only profit margins or management fees paid directly or indirectly to related party contractors (not including actual incurred expenses of the related party contractor) for the regulatory reporting period.

Ergon Energy does not have any profit margins or management fees paid directly or indirectly for related party contracts to report.

Assumptions

No assumptions were made.

Estimated Information

Related Party Margin

Ergon Energy has provided actual information in Template 8.2 for the current regulatory year.

Where information is provided Ergon Energy does so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.

Explanatory Notes

Table 8.2.4 - CAPEX by Asset Class

Compliance with the RIN Requirements

Ergon Energy has prepared the information provided in Template 8.2 Capex in accordance with the RIN requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the RIN.

Ergon Energy has populated all variables for cells shaded yellow as required by the RIN.

Sources

Capex is recorded by Ergon Energy as either Direct Purchases, or Project costs.

Direct purchases relate to the purchase of a complete asset from an outside supplier such as motor vehicles or computers, whereas a construction asset (primarily distribution assets) is treated as project costs.

Ergon Energy has developed a report this year which extracts the Capex spend data from the general ledger and draws in the project details from to the Ellipse Project Accounting module to provide one comprehensive summary of capex spend by asset class. This report includes both direct purchases and constructed WIP, and also provides a further breakdown by voltage for the purposes of allocating direct capex spend into voltage levels.

This was the CAM Recast data extract "FIN084 Capex Spend" report.

Where the Project has been capitalised, Business Property Unit codes (BPU) are recorded against the Project to assign the asset category for capitalisation. A mapping process is undertaken to identify the AER asset category. This process also identifies unregulated Capex to be excluded.

Where the Project remains under construction and is yet to be capitalised, the types of assets under construction are ascertained using a number of methodologies, including extracting project information from the Ellipse estimating module, applying assumptions based on GL activity and utilising data from similar project types.

Once the information is extracted, the mapping tables are applied to convert the type of assets into the RIN asset categories per below methodologies and assumptions.

Methodology

Table 8.2.4 (Capex by Asset Class) requires Ergon Energy to report forecast and actual Financial Information for SCS Capex using categories which align with those set out in Ergon Energy's Post Tax Revenue Model and Roll Forward Model issued with the 2015-20 Distribution Determination as per definitions provided in Appendix F to the RIN.

Further, the AER requires reporting for Movements in provisions allocated to as-incurred capex by asset class. In accordance with the AER's clarification on the 15 April 2016, the purpose for providing this information is to adjust capex reported in the RAB in the Economic Benchmarking RIN Template 3.3 (Assets) commencing from 2015-16.

Ergon Energy has reported expenditure in table 8.2.4 <u>exclusive</u> of all capital contributions per RIN requirements (only tables 8.2.1 and 8.2.5 include capital contributions). The capital contributions excluded for each asset class are taken directly as reported in table 8.2.5.

Finally, to meet with the definition of capex in Appendix F to the RIN, Ergon Energy is required to remove any sharing of assets in the delivery of ACS. The definition requires Capex to be the amounts included in the Regulatory Asset Base for Ergon Energy. In Ergon Energy's Final Distribution Determination Attachment 2 (RAB), heading (Separation of ACS and unregulated assets) the AER removed the equivalent of the ACS usage value of assets from the RAB. This approach will also meet the requirements of Ergon Energy's approved CAM par 9.3 Treatment of Capital Expenditure and Shared Assets.

Ergon Energy makes the below comments in relation to the process undertaken to report actual Capex by Asset Class in Table 8.2.4.

Capex - Asset Class

Ergon Energy's asset classes in the Roll Forward Model and Post-tax Revenue Model are duplicated to separate assets purchased prior to and after 1 July 2010 due to the applicability of differing asset lives. Therefore, for comparability purposes Ergon Energy has selected the asset classes from the RFM. Of note, some asset classes (Street Lighting, Metering Type 5-6) are dedicated to the delivery of ACS, as such no financial values will be reported against these classes.

Capex - Actual

Capex by asset class is extracted from the Project Accounting module in the Ellipse ERP and by matching to fixed asset register classes and after balancing to the General Ledger provides capex in the AER capex by Asset Class reporting categories. The adjustment in capex for assets used for non-SCS purposes is also deducted. This amount is determined by considering a number of relevant cost drivers, including headcounts at different locations, fleet costs, and communication cable length.

Capex - Forecast

Forecasts must be adjusted for the impact of actual inflation outcomes to be in the same dollar terms as the actual data reported in the Financial Information Templates at Appendix B.

Ergon Energy has used the forecasts contained in its 2015-20 Distribution Determination, adjusted for the impact of actual inflation outcomes to be in the same dollar terms as the actual data reported.

The adjusted amounts were calculated by allowing for a change between forecast and actual CPI for the current regulatory year in the PTRM.

The actual CPI entered into the PTRM is consistent with Ergon Energy's annual Pricing Proposal and is based on the relevant ABS December to December CPI weighted average of 8 capital cities result sourced from the ABS website.

Movements in provisions allocated to as-incurred capex by asset class

The movement in provisions is calculated in the Economic Benchmarking RIN Template 3.2.3 Provisions including the amount that relates to capex. This total amount is pro-rated across the asset classes.

Assumptions

No assumptions were made.

Estimated Information

Ergon Energy has provided actual information in Template 8.2 for the current regulatory year.

Where information is provided Ergon Energy does so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.

Explanatory Notes

Table 8.2.5 - Capital Contributions by Asset Class

Compliance with the RIN Requirements

Ergon Energy has prepared the information provided in Template 8.2 Capex in accordance with the RIN requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the RIN.

Ergon Energy has populated all variables for cells shaded yellow as required by the RIN.

Categories in Tables 8.2.5: Capital Contributions by Asset Class will be automatically populated as they are linked to Table 8.2.4: Capex by Asset Class.

Sources

Capital contributions are made up of customer contributions towards a connection project constructed by Ergon Energy and connection assets constructed by a third party and gifted to Ergon Energy.

This information was sourced from the CAM Recast data extract "FIN084 Capex Spend" report and the recast trial balance for the relevant gifted assets GL activity codes and cash contributions revenue account codes.

Once the information is extracted, the assets are categorised into the appropriate RIN asset categories per below methodologies and assumptions.

Methodology

Ergon Energy has reported expenditure in table 8.2.5 (and 8.2.1) <u>inclusive</u> of all SCS and ACS capital contributions (excluding public lighting) per RIN requirements.

Ergon Energy confirms, as per Appendix A 3.1 Capital Contributions is treated in accordance with the method approved in the 2015-20 Distribution Determination.

Capital Contributions - Actual

Actual Capital Contributions are not recorded against specific asset categories in the Ellipse general ledger. Therefore, an apportionment process has been applied to report against asset categories. This is based on the percentage split of asset categories for CICW (customer initiated capital works) expenditure from the Ellipse Project Accounting module.

Capital Contributions - Forecast

Ergon Energy has sourced financial values for forecasts from Table 6.3 (our assessment of required capex by capex driver 2015-20) to Ergon Energy's 2015-20 Distribution Determination, adjusted for the impact of actual inflation.

Assumptions

No assumptions were made.

Estimated Information

Ergon Energy has provided actual information in Template 8.2 for the current regulatory year.

Where information is provided Ergon Energy does so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.

Explanatory Notes

Table 8.2.6 - Disposals by Asset Class

Compliance with the RIN Requirements

Ergon Energy has prepared the information provided in Template 8.2 Capex in accordance with the RIN requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the RIN.

Ergon Energy has populated all variables for cells shaded yellow as required by the RIN.

Categories in Table 8.2.6: Disposals by Asset Class will automatically populate as they are linked to Table 8.2.4: Capex by Asset Class.

Sources

Information for the disposals by asset class template is sourced from the Ellipse Asset Retirements report.

The retirements by fixed asset register asset class are mapped to the RIN asset categories per below methodologies and assumptions.

Methodology

Ergon Energy has reported expenditure in table 8.2.6 <u>exclusive</u> of all capital contributions per RIN requirements (only tables 8.2.1 and 8.2.5 include capital contributions).

Disposals - Actual

The financial values for actual disposals are required to be reported on a gross proceeds from the sale of assets basis as per definitions provided in Appendix F to the RIN.

The Ergon Energy fixed assets register records and reports the value of asset disposals as well as any proceeds received. This reporting is by the asset categories used in the asset register, these are mapped to the AER reporting categories using the mapping table used for the preparation of other AER templates requiring a similar dissection.

Disposals - Forecast

Ergon Energy has sourced financial values for forecasts from the Post Tax Revenue Model issued with the 2015-20 Distribution Determination, adjusted for the impact of actual inflation.

Actual Inflation applied is consistent with Ergon Energy's annual Pricing Proposal obtained from the ABS for the Weighted Average of 8 capital cities Dec - Dec period.

Assumptions

No assumptions were made.

Estimated Information

Ergon Energy has provided actual information in Template 8.2 for the current regulatory year.

Where information is provided Ergon Energy does so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.

Explanatory Notes

BOP - 8.4 OPEX

Table 8.4.1 - Operating & Maintenance Expenditure - byPurpose

Compliance with the RIN Requirements

Ergon Energy has prepared information provided in Template 8.4 Operating Expenditure (Opex) in accordance with the RIN requirements, including the Principles and Requirements set out in Appendix E and definitions in Appendix F to the RIN.

Ergon Energy has populated all variables for cells shaded yellow as required by the RIN.

Ergon Energy has not populated information in relation to Negotiated Services which is greyed out and not applicable in this regulatory control period.

Table 8.4.3 requires Ergon Energy to provide an explanation of the main drivers for material differences between forecast and actual expenditure for SCS that are identified in Table 8.4.1.

Differences are calculated in Table 8.4.1 - Opex by Purpose for all SCS and ACS categories presented therein.

Determination of whether differences are material aligns to the defined term 'Materiality' in accounting standard AASB 108 paragraph 5. Generally, any material differences are those which are greater than 5% to 10% (between AER approved forecasts (adjusted for the impact of actual inflation outcomes) and Ergon Energy's reported actual amount).

Where the difference between forecast and actual expenditure are calculated in Table 8.4.1 the main factors driving the difference are entered in Table 8.4.3 - Operating & Maintenance Expenditure - Explanation of Material Difference. Please also refer to Explanations for material variances (Capex, Opex) which reports against Schedule 1 Para 1.5-1.8 also requires Ergon Energy to identify each difference (where the difference is equal to or greater than ±10 per cent) between the amount reported in the Financial Information Templates and the amount provided for in the 2015-20 Distribution Determination for the following:

Total actual opex and total forecast opex; and

Explain the reasons for each difference identified.

Sources

Ergon Energy has sourced Statutory data from the SAP system, whilst the Distribution numbers are from the CAM Recast data extract 0295 Account Balances report.

Methodology

Ergon Energy is to list the Opex categories identified in Ergon Energy's regulatory proposal at table 3.2.1.1 current Opex categories and cost allocations as per instructions.

Ergon Energy must specify any expenditure category where the expense is more than 5 per cent of the total SCS opex.

Ergon Energy makes the below comments in relation to the process undertaken to report actual Opex by Categories:

Preventive Maintenance

Comprises of schedule inspection and maintenance activity. This work is carried out at predetermined intervals, or in accordance with prescribed intervals, or in accordance with prescribed criteria, in order to minimise the probability of network failure, minimise total life cycle costs, meet required operating conditions and performance standards, and keep Ergon Energy staff and the public safe.

The cost of preventative maintenance is identified by separate codes within the general ledger is extracted for reporting total expenditure.

The adjustment relates to the cost of preventative maintenance on Ergon Energy's isolated and unregulated assets as well as the CAM recast. These costs are separately identified in the general ledger.

The cost of preventative maintenance on assets that provide ACS is also identified by an activity code within the general ledger coding structure.

Corrective Maintenance

Involves planned repair work identified and assessed as defects from preventative maintenance or customer reports in order to prevent an unplanned outage or dangerous electrical event. This category of work is planned and carried out regularly. The largest element of Ergon Energy's corrective maintenance program relates to vegetation management.

The cost of corrective maintenance is identified by separate codes within the general ledger. Reporting involves extracting the total expenditure.

The adjustment relates to the cost of corrective maintenance on Ergon Energy's isolated and unregulated assets as well as the CAM recast. These costs are separately identified in the general ledger. The cost of corrective maintenance on assets that provide ACS is also identified by an activity code within the general ledger coding structure.

Forced Maintenance

Involves unplanned repair, replacement or restoration work that is carried out as quickly as possible after the occurrence of an unexpected event or failure in order to bring the distribution network to at least its minimum acceptable and safe operating condition. Although it is unplanned, an annual provision is made for this category of expenditure.

The cost of forced maintenance is identified by separate codes within the general ledger. Reporting involves extracting the total expenditure.

The adjustment relates to the cost of forced maintenance on Ergon Energy's isolated and unregulated assets as well as the CAM recast. These costs are separately identified in the general ledger.

The cost of forced maintenance on assets that provide ACS is also identified by an activity code within the general ledger coding structure.

Other network maintenance

Ergon Energy's maintenance costs are identified by specific codes within the General Ledger hence there are no amounts to be included in 'other'.

Network Operating costs

Network operating costs are separately identified in the Ellipse general ledger. Adjustments relate to amounts directly attributed to the isolated networks as well as the CAM recast.

Meter reading

Costs incurred in Ergon Energy's capacity as a Metering Data Provider for Types 5, 6, and 7 metering installations and customer service activity reported against the relevant Service Segment in accordance with Ergon Energy's Final Distribution Determination Attachment 13 (Classification of Services).

The cost of meter reading is identified by separate codes within the general ledger. Reporting requires extracting the total expenditure from designated codes.

The adjustment relates to the cost of meter reading for customers on Ergon Energy's isolated and unregulated networks as well as the CAM recast. These costs are separately identified in the general ledger.

Customer service (including Call Centre)

Customer Service relates to the cost of providing customer service to customers.

Customer Service costs is separately identified in the general ledger.

The adjustment relates to the cost of providing customer service to customers on Ergon Energy's isolated and unregulated networks as well as the CAM recast.

Other Operating Costs

The regulated component of these costs relates, in part, to the Demand Management incentive arrangements, GSLs which are separately identified in the Ellipse general ledger.

The adjustment relates to unclassified costs of operating the isolated systems, and unregulated assets as well as the CAM recast.

Training

Training relates to the cost of providing Training to Employees.

Training costs are separately identified in the general ledger.

Corporate Restructuring

Corporate Restructuring costs relating to the organisational restructure of Ergon Energy including employee redundancy payments.

Corporate restructuring costs are separately identified in the general ledger.

Non-network alternatives

Non-Network Alternatives (NNA) are systems and processes implemented to reduce peak demand on the shared network. As such, all expenditure is related to SCS.

The adjustment relates to the CAM recast.

NNA costs are separately identified in the general ledger.

Not Proceeding Network Initiated Capital Works

Not proceeding Network initiated capital works are costs Ergon Energy has incurred in progressing Network initiated capital works which did not proceed to completion.

In 2019-20 Ergon Energy recognised work as non-proceeding by removing the incurred cost that had been capitalised and allocated to an Asset Class (par 4.3 Appendix A), from the Regulatory Asset Base resulting in a loss on disposal of asset. Subsequently, as the sale (disposal) of inventory, asset or scrap is recognised as an unregulated non-distribution service in accordance with Attachment 13 (Classification of Services) in Ergon Energy's 2015-20 Final Distribution Determination the loss on disposal is unregulated. For statutory purposes expenditure is recognised in Work in Progress when incurred and capitalised on commissioning of the asset. As such non-proceeding works not yet capitalised are removed from WIP and reported as 'other' expenditure for the audited statutory accounts.

CPI Adjusted Forecasts

Forecasts must be adjusted for the impact of actual inflation outcomes to be in the same dollar terms as the actual data reported in the Financial Information Templates at Appendix B.

Ergon Energy has used the forecasts contained in its as 2015-20 Distribution Determination, and adjusted these amounts for actual consumer price index (CPI).

The adjusted amounts were calculated by allowing for a change between forecast and actual CPI for the 2019-20 regulatory year in the Post Tax Revenue Model (PTRM).

The actual CPI entered into the PTRM is based on the relevant Australian Bureau of Statistics (ABS) December to December CPI weighted average of 8 capital cities result sourced from the ABS website.

Assumptions

Estimated Information

Ergon Energy has provided actual information, in accordance with the AER's definition.

Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.

Explanatory Notes

Table 8.4.2 - Operating & Maintenance Expenditure - byPurpose - Margins Only

Compliance with the RIN Requirements

Ergon Energy has prepared information provided in Template 8.4 Operating Expenditure (Opex) in accordance with the RIN requirements, including the Principles and Requirements set out in Appendix E and definitions in Appendix F to the RIN.

Ergon Energy has populated all variables for cells shaded yellow as required by the RIN.

Ergon Energy has not populated information in relation to Negotiated Services which is greyed out and not applicable in this regulatory control period.

Table 8.4.3 requires Ergon Energy to provide an explanation of the main drivers for material differences between forecast and actual expenditure for SCS that are identified in Table 8.4.1.

Differences are calculated in Table 8.4.1 - Opex by Purpose for all SCS and ACS categories presented therein.

Determination of whether differences are material aligns to the defined term 'Materiality' in accounting standard AASB 108 paragraph 5. Generally, any material differences are those which are greater than 5% to 10% (between AER approved forecasts (adjusted for the impact of actual inflation outcomes) and Ergon Energy's reported actual amount).

Where the difference between forecast and actual expenditure are calculated in Table 8.4.1 the main factors driving the difference are entered in Table 8.4.3 - Operating & Maintenance Expenditure - Explanation of Material Difference. Please also refer to Explanations for material variances (Capex, Opex) which reports against Schedule 1 Para 1.5-1.8 also requires Ergon Energy to identify each difference (where the difference is equal to or greater than ±10 per cent) between the amount reported in the Financial Information Templates and the amount provided for in the 2015-20 Distribution Determination for the following:

Total actual Opex and total forecast Opex; and Explain the reasons for each difference identified.

Sources

Ergon Energy has sourced data from Ellipse systems entries of Energex accounts payable and intercompany transactions with Inter District Indicators (IDI). Margin amount is provided by the relevant Energex department.

Methodology

Related Party Margin Expenditure

'Related Party Margin Expenditure' comprises only profit margins or management fees paid directly or indirectly to related party contractors (not including actual incurred expenses of the related party contractor) for the regulatory reporting period

For 2019-20 Ergon Energy does have profit margins or management fees paid directly or indirectly for related party contracts. Disclosed in table 8.4.2.

Energex provided Margin information based on invoice numbers issued to Ergon that fall within Ergon's AP data. The transactions with related party margins were mapped into the AR OPEX RIN categories.

Ergon Energy confirms, as required by the AER in Appendix F, Definitions that it has assessed its response to this template in accordance with the related party definition.

Assumptions

Estimated Information

Ergon Energy has provided actual information, in accordance with the AER's definition.

Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.

Explanatory Notes

Table 8.4.3 - Operating & Maintenance Expenditure -Explanation of Material Difference

Compliance with the RIN Requirements

Table 8.4.3-1 below demonstrates how the information provided by Ergon Energy is consistent with each of the requirements specified by the AER.

Table 8.4.3-1 Demonstration of Compliance

Requirements (instructions and definitions)	Consistency with requirements
8.4.3 Operating & Maintenance Expenditure - Explanation of Material Difference	All material differences identified in table 8.4.1 are explained in table 8.4.3.
Where the difference between forecast and actual expenditure shown in table 8.4.1, column I is a Material Difference please explain the main factors driving the difference.	

Sources

Not applicable, refer to table AR 8.4.3 for explanation of material difference.

Methodology

Not applicable, refer to table AR 8.4.3 for explanation of material difference.

Assumptions

Not applicable, refer to table AR 8.4.3 for explanation of material difference.

Estimated Information

Ergon Energy has provided actual information, in accordance with the AER's definition.

Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.

Explanatory Notes

Not applicable, refer to table AR 8.4.3 for explanation of material difference.