Submission on the *Preliminary positions paper – Framework and Approach for Energex and Ergon Energy*

19 February 2014

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Australian Energy Regulator

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Introduction

Ergon Energy Corporation Limited (Ergon Energy), in its capacity as a Distribution Network Service Provider (DNSP) in Queensland, welcomes the opportunity to provide comment to the Australian Energy Regulator (AER) on its *Preliminary positions paper – Framework and Approach for Energex and Ergon Energy – Regulatory control period commencing 1 July 2015* (Preliminary Positions Paper).

Ergon Energy accepts and supports many of the AER's preliminary positions. However, some improvements are necessary, including:

- Better direction on the basis of the control mechanism to apply to Alternative Control Services in the next regulatory control period and the future treatment of costs associated with various transitional and revenue issues
- More transparency on the preliminary formulae applying to Alternative Control Services (including better explanation and reasoning where the AER decides to depart from the current approach)
- The inclusion of an allowance cap for the Demand Management Incentive Scheme (DMIS)
- A more customer-focused approach to the layout of the proposed classification of distribution services
- Maintaining a direct control service classification for Emergency Recoverable Works
- Maintaining an Alternative Control Service classification for large customer connections, or alternatively removing regulatory oversight altogether (through an unregulated classification)[1]
- Incorporating a number of additional services, such as wasted truck visits, as separate services in the classification of distribution services table.

This submission provides detailed comments on the AER's preliminary positions and the proposed classification of distribution services. It also sets out our proposed initial averaging period, which will be used in determining the nominal return on debt in 2015–16, and our proposed approach to nominating the remaining annual averaging periods for the next regulatory control period. In accordance with the AER's Rate of Return Guideline, the agreed averaging periods are to be kept confidential and have been marked as such in this submission.

We appreciate the opportunity provided to date for engagement with the AER on issues important to us. Ergon Energy looks forward to discussing this submission and our proposed improvements with the AER prior to formalising the Framework and Approach paper.

[1] We note 'unclassified' and 'unregulated' are often used interchangeably. For consistency, Ergon Energy has referred to 'unregulated' services in this submission.

General comments

Customer engagement

Ergon Energy is committed to delivering the outcomes our customers want. Over the coming weeks, our intention is to understand any issues our customers have with the AER's proposed Framework and Approach paper and we will provide any feedback received to the AER.

Where stakeholders raise sufficient concern over specific issues, we request that the AER consider making itself available to provide further explanation and undertake additional consultation on these issues.

We therefore agree with the AER that "consumers should be actively involved in the F&A [Framework and Approach] process"[2] and we will be eager to understand the extent to which the AER will consult with customers when developing its final positions on the Framework and Approach.

We also note that the AER intends to consult with consumers on the treatment of confidential information. Similarly, Ergon Energy will discuss with our key customer representatives their expectations in respect of the information we provide to the AER.

Further details of Ergon Energy's current engagement initiatives can be found at www.ergon.com.au/community--and--our-network/future-investment/engagement-program.

Market reform

The environment in which Ergon Energy operates is undergoing unprecedented change. Advances in technology have fundamentally changed how electricity is produced, moved and used.

In this environment, traditional concepts that assume electricity distribution networks provide monopoly services are being challenged. This is particularly the case for Ergon Energy as the costs of providing services to each customer in our vast network area are naturally much higher than more densely populated networks. This means that our customers have more reason to consider alternative means to our distribution network service to secure their energy needs.

As a result, our business needs to be an enabler of energy, storage and demand management solutions, while still providing a safe, secure and reliable supply.

To facilitate this, Ergon Energy needs to be flexible in the services we provide, and the classification of distribution services should allow us to add new services throughout the next regulatory control period, as required through the annual Pricing Proposal process. Funding to undertake demand management initiatives, through the DMIS, is also required to enable us to explore innovative and more efficient solutions to network augmentation and to adopt new measures to assist in the transition to more efficient pricing. Flexibility in relation to the introduction of new tariffs and tariff structures is also needed. This can be facilitated through the continued application of a revenue cap form of control for Standard Control Services.

[2] AER (2013), *Replacement of the Framework and Approach for Queensland and South Australian electricity distribution businesses, 2015–2020,* September 2013, p4.

Facilitating Regulatory Proposal preparation

Ergon Energy continues to prepare our Regulatory Proposal and supporting evidence consistent with the approach outlined in our Expenditure Forecast Methodology. We intend to take into account issues and concerns raised by customers as part of our engagement processes. We have appreciated the regular discussions with the Customer Council and the AER on issues regarding the proposal process and look forward to this spirit of co-operation continuing.

At the same time, we are responding to quite detailed and resource intensive requests from the AER with respect to historic information through its Regulatory Information Notice (RIN) process. We are also discussing the likely content of the Reset RIN which will accompany the Regulatory Proposal.

We believe that the Framework and Approach paper should assist us in preparing a Regulatory Proposal that meets the AER's expectations. The Preliminary Positions Paper achieves this in many ways. However, Ergon Energy prefers to see more detailed information around the AER's expectations in relation to:

- The recovery of charges for using the Cloncurry 220kV network and entry and exit charges for non-regulated Powerlink connection points
- The treatment of capital contributions, shared assets and solar feed-in tariff costs incurred during the current regulatory control period
- The incorporation of annual updates on the return on debt in the Maximum Allowable Revenue (MAR) formula
- Revenue adjustments associated with the carry forward of Distribution Use of System (DUOS) under-recoveries from the current regulatory control period
- The basis of the control mechanism for Alternative Control Services. That is, the approach to setting charges for Types 5 and 6 metering services, public lighting services and other Alternative Control Services
- The possible application of the new Demand Management and Embedded Generation Connection Incentive Scheme, and the Small-scale Incentive Scheme in the next period.

Justifying departures

In its decision on whether it is necessary or desirable to amend or replace the matters outlined in the current Framework and Approach paper,[3] the AER considered that the scope of changes arising from amendments to the National Electricity Rules (NER) required it to replace, rather than amend, the current Framework and Approach for all matters. Specifically, the AER stated that the Framework and Approach needed to be replaced to:

- Address new matters that were not included in the current Framework and Approach (e.g. formulae that give effect to the control mechanisms, new incentive schemes and the application of the Expenditure Forecast Assessment Guideline).
- Conduct a comprehensive review of the classification of distribution services and whether any barriers to competition exist, in light of recent energy market reforms.
- Assess the form of control, as the AER expects to classify some services differently in the next regulatory control period.

[3] Refer to http://www.aer.gov.au/node/20186.

- Review existing incentive schemes in light of relevant reforms.[4]

We accept the above arguments and the AER's decision to replace the current Framework and Approach. Notwithstanding this, it is important for the AER to explain to customers and Ergon Energy the reasons behind any departures from the current arrangements and why they were necessary. For some matters, it remains unclear whether the approach outlined by the AER would allow Ergon Energy to continue current arrangements, or whether it would require changes to be made. The AER should explicitly highlight matters they expect will change from current arrangements and which ones are likely to result in no change. This will assist stakeholders to identify and understand the scope of changes.

[4] AER (2013), *Replacement of the framework and approach for Queensland and South Australian electricity distribution businesses, 2015–2020,* September 2013, pp7-10.

Table of detailed comments on the AER's preliminary positions

AER preliminary position(s)	Ergon Energy response
Control mechanism for Standard Control Services	
The AER will adopt a revenue cap for Standard Control Services.	Ergon Energy notes the AER's intention to adopt a revenue cap and the reasons why.
The NER mandate the basis of the control mechanism must be the prospective CPI–X form, or some incentive-based variant.	We believe more clarity on the AER's approach would improve certainty for DNSPs and customers on how the AER proposes to establish controls on revenues for the next regulatory control period. The intent of the NER is for the AER to provide more direction on the operation of the control mechanism, even if it is not necessarily a specific matter forming part of the Framework and Approach paper.
The AER's preliminary formulae to apply to Standard Control Services is set out on page 52 of the Preliminary Positions Paper.	Ergon Energy generally accepts the AER's proposed formulae. However, we seek clarification from the AER on the following: • *Scope of the T_t component (transitional adjustments)* Ergon Energy believes that this component should allow us to recover any under/over recoveries relating to capital contributions and shared assets from 2013–14 and 2014–15 (as per the capital contribution and transitional components in the current MAR formula), as well as pass through amounts for solar feed-in tariffs relating to 2013–14 and 2014–15. These components should be included in the MAR formula because: ○ We will not have audited financial information on these costs until after the Regulatory Proposal is submitted. ○ These adjustments are outside what would otherwise be included in the building block approach. ○ This approach is consistent with the one adopted at the beginning of the current regulatory control period for similar costs incurred in the 2005–10 period. As a principle, the AER should provide assurance to DNSPs that they are not jeopardised because of the transition to a new control mechanism formula, which does not explicitly recognise components of allowed revenues associated with costs incurred in the previous regulatory control period. That is, those revenues which would otherwise be allowed to be recovered under the current period's

	control mechanism (e.g. revenue adjustments for under/over recoveries in capital contributions, shared assets and actual solar feed-in tariffs). Therefore, we consider that the MAR formula in the Framework and Approach should specifically reference these transitional adjustments. • *Scope of the B_t component (annual adjustment factors)* Ergon Energy considers that this component should include approved cost pass throughs that may occur in the next regulatory control period[5] (a separate component in our existing MAR formula). Further, it should allow for annual updates on the return on debt, arising out of the AER's new Rate of Return Guideline and return on debt provisions set out in clause 6.5.2 of the NER. The AER should consider and explain how this will be incorporated in the MAR formula. • *DUOS unders/overs account within the B_t component* The inclusion of the unders/overs account in the MAR formula is different to the current approach where the unders/overs account is outside of the MAR formula. The current MAR formula is: $$\boldsymbol{MAR_t = AR_t \pm S_t \pm C_t \pm \text{transitional}_t \pm \text{passthrough}_t}$$ Where: AR_t is the allowed revenue for regulatory year t S_t is the Service Target Performance Incentive Scheme (STPIS) factor to be applied in regulatory year t C_t is the annual adjustment factor for the difference between actual and forecast capital contributions in year t–2 and indexed for two years by the nominal rate of return transitional_t is a transitional factor for matters such as unders and overs in tax paid during the current regulatory period and unders and overs adjustments related to standard shared assets used for purposes other than Standard Control Services passthrough_t is the approved pass through amounts with respect to regulatory year t, as determined by the AER. Any under/over adjustment required to clear under or over recoveries in actual DUOS revenue from the most recently completed regulatory year is then added to the MAR, to reach the Annual Revenue Requirement for the regulatory year.

[5] For clarity, this does not relate to pass throughs for solar feed-in tariffs from the current regulatory control period. As noted above, this should be a transitional adjustment.

	Ergon Energy has not undertaken analysis to assess whether the under/over adjustment can be moved to within the MAR calculation. We believe the AER should model the impacts of this change to ensure that DNSPs are not better or worse off as a result. Ergon Energy also considers that the AER should demonstrate conceptually in the Framework and Approach how the inclusion of the unders/overs adjustment in the MAR formula would apply. Ergon Energy also anticipates that this change may necessitate changes to the form and content of our current DUOS unders and overs account compliance table (as set out in Appendix D of the current Distribution Determination). Ergon Energy also requests that the AER consider bringing forward the timing of the Consumer Price Index (CPI) factor when making its Distribution Determination for the next period. A CPI factor based on March t-2 to March t-1 is not practical due to the Australian Bureau of Statistics' release date of the March t-1 CPI (generally last week of April each year). Since our annual Pricing Proposal is due by 30 April each year,[6] this creates unnecessary tight timeframes in the pricing process. Also, it may not be appropriate under the proposed *Distribution Network Pricing Arrangements* Rule change, which is seeking to bring forward the submission date of annual Pricing Proposals.[7]
Control mechanism for Alternative Control Services	
The AER will impose caps on the prices of individual services.	Ergon Energy supports the AER's preliminary position to impose caps on the prices of individual services for Alternative Control Services. However, the AER has not included connection services in its list of services that are proposed to be classified as an Alternative Control Service.[8] This is inconsistent with Appendix B, which proposes to classify some of the pre-connection, connection and post-connection services as an Alternative Control Service. We assume that the AER intends for these services to be subject to caps on the prices of individual services. Finally, we refer to the AER's example on page 53 of the Preliminary Positions Paper about quoted services: *"Typically, prices for quoted services are based on quantities of labour and materials with the quantities dependent on a particular task. For example, where a customer seeks a non-standard connection which may involve an extension to the network the distributors may only be able to quote on the*

[6] Except the first regulatory year of the regulatory control period, when it is due within 15 business days after publication of the Distribution Determination.
[7] Refer to *Distribution Network Pricing Arrangements* Rule change, which is available at http://www.aemc.gov.au/Electricity/Rule-changes/Open/distribution-network-pricing-arrangements.html.
[8] Refer to section 2.4, page 53 of the Preliminary Positions Paper

	service once they know the scope of the work." Ergon Energy notes that this section is referring to Alternative Control Services and only large customers would be charged in this manner. Small customers requesting this type of work are currently subject to our capital contributions policy (i.e. Standard Control Service). Ergon Energy considers that this distinction should be clearly made to avoid confusion. We also consider that the AER's argument applies to all quoted services. That is, we are unable to quote until the scope of the work is known.
The AER will confirm a control mechanism basis through the distribution determination process.	Ergon Energy recognises that Alternative Control Services must have a basis as stated in the Distribution Determination (e.g. building block approach or some other basis).[9] However, we believe the AER should provide early indication of the basis of control to enable us to prepare indicative prices for Alternative Control Services in our Regulatory Proposal and the Reset RIN, and to be able to sufficiently provide comment on the proposed formulae. This is particularly important for services that are proposed to change classification in the next period (e.g. Type 5 and 6 metering services). If the AER does not provide its preferred approach in the Framework and Approach paper, and to the extent that a DNSP has complied with the Framework and Approach paper in respect of the control mechanism outlined, the AER should not be able to reject our approach to arriving at the variables consistent with the formula. It would be inefficient regulation for the AER to reject a DNSP's proposal on the basis that it did not comply with the AER's preferred approach, if this preferred approach was not outlined in the Framework and Approach. Based on the AER's proposed classification of services, Ergon Energy's preliminary view is that a limited building block approach should apply to: • Type 5 and 6 metering provision, maintenance, reading and data services[10] • Provision, construction and maintenance of public lighting.[11] A formula-based approach (i.e. non-building block) should apply to all other service groups that are proposed to be classified as an Alternative Control Service (e.g. auxiliary metering services, large customer connections, and emerging or new public lighting technology).

[9] Clause 6.2.6(b) of the NER
[10] This would include the initial installation of a meter. Refer to our comments in the 'Classification of Services' section below.
[11] Except removal / relocation of street lighting assets, which we are seeking to classify as a separate service group. Refer to our comments in the 'Classification of Services' section below.

The AER's preliminary formulae to apply to Alternative Control Services, which the AER proposes to remain classified as Alternative Control Services, are set out on page 55 of the Preliminary Positions Paper.	It is not clear from the following statement whether the AER's intent is to change the formulae for fee based and quoted services: *"For clarity, the overall price of a quoted service is derived from one or more input prices. For example, a labour rate or material cost. Where this is the case, the price that relates to the input cost is substituted for the price term $\bar{p}_i^t$."* To the extent the AER's formulae would preclude the continuation of the current formula, the AER should expressly state this and the reasons why an alternative approach is reasonable and necessary. Ergon Energy's preference is to retain the current formulae (subject to any minor changes submitted as part of our Regulatory Proposal) for all Alternative Control Services that are fee based or quoted, with the exception of large customer connections. In light of the contestability that exists, Ergon Energy believes that the formula to apply to large customer connections should include a commercial profit margin. Approximately 32 per cent of large customer design and construct projects currently under construction are being built by customers. The inclusion of a profit margin would minimise any concern that the AER's controls on revenue and pricing create a barrier for potential market entrants in the design and construction of large customer connections. To enhance the ability of large customers to make choices in this area, Ergon Energy notes that we lodged an exclusive dealing notification with the Australian Competition and Consumer Commission (ACCC) in 2012 to facilitate the creation of a register of contractors, consultants, manufacturers and suppliers that could undertake these works, while ensuring that the works would be supplied to a high standard and integrate with our network appropriately.[12] Alternatively, the AER should consider an unregulated classification.[13] Further, we have concerns about applying the AER's preliminary formulae to services that are subject to a basis of control that is not a building block approach (limited or otherwise). Our concerns are highlighted below. <u>Capping individual formulae components</u> The AER's proposed approach applies a cap on the price of the service. However, rather than capping the overall price of the service, Ergon Energy considers that the individual formulae components should be capped. In its current Distribution Determination for Ergon Energy, the AER stated that "it is not possible to cap the price for individual quoted services as the scope of work, and

[12] Refer to N95717, available at http://registers.accc.gov.au/content/index.phtml/itemId/1032775/fromItemId/1026774.
[13] Note our comments in the 'Classification of Services' section below in relation to making large customer connections unregulated.

	therefore the cost, for each individual service is not known prior to the service being provided".[14] The AER then indicated that individual formula components should be capped, allowing the total price of each quoted service to vary according to the size, scale and scope of the individual service being undertaken. A price path for each formula component was then specified for subsequent regulatory years. Ergon Energy believes this argument continues to apply in the next period and should be reflected in the formulae for services that are quoted services. Consequently, we support a continuation of the current quoted services formula (subject to any minor amendments made in our Regulatory Proposal), which caps the individual formula components. That is: $$Pi = Li + Mi + OCi + CAi + GSTi$$ Where: *Li* = the cost of labour involved in the delivery of the service, calculated as the product of an hourly rate (inclusive of on-costs and shared costs (overheads)) and the time spent by the personnel involved. The amount of time includes both travel time and the time spent delivering the service. *Mi* = the cost of non-capitalised materials expensed in the delivery of the service (inclusive of overheads). For new large customer connection services, this could include large scale capital items which are charged directly to customers. *OCi* = other one off costs (inclusive of overheads) relating to the delivery of the service, including: (a) the hire or supply of assets and equipment (b) the supply of services such as contractors and external labour (c) the cost of permits. Other Costs are to be charged to customers at their cost to Ergon Energy plus overheads. *CAi* = reflects the use of non-system physical assets owned by Ergon Energy involved in the delivery of the service. This charge reflects the return on assets (ROA) and depreciation of those assets employed in the delivery of the service (e.g. trucks and IT systems). *GSTi* = the Goods and Services Tax component of the service charge. Similarly, for fee based services, the capped price is currently calculated using the

[14] AER (2010), *Final Decision, Queensland distribution determination 2010–11 to 2014–15*, May 2010, p354.

	individual formula components used in the provision of each service. This should be reflected in the formulae for services that are fee based. Therefore, we support a continuation of the current formula for services that are fee based (subject to any minor amendments made in our Regulatory Proposal). That is: ***Pi = Li + Mi + CAi + GSTi*** Where: *Li* = the cost of labour involved in the delivery of the service, calculated as the product of an hourly rate (inclusive of on-costs and shared costs (overheads)) and the time spent by the personnel involved. The amount of time includes both travel time and the time spent delivering the service. *Mi* = the cost of non-capitalised materials expensed in the delivery of the service (inclusive of overheads). *CAi* = reflects the use of non-system physical assets owned by Ergon Energy involved in the delivery of the service. This charge reflects the ROA and depreciation of those assets employed in the delivery of the service (e.g. trucks and IT systems). *GSTi* = the Goods and Services Tax component of the service charge. <u>X-factor</u> Ergon Energy is unclear how an X-factor will apply if the service is regulated under a formula-based approach. X-factors usually apply where there are a combination of inputs and escalators deriving an escalation rate different to CPI. This approach would appear to be slightly different to the current approach the AER applies to Fee Based and Quoted Services. It is possible that Ergon Energy has misunderstood the intent of the AER's preliminary formulae. We consider it would be in the best interests of customers and DNSPs for the AER to clarify how an X-factor would apply to a non-building block approach. <u>Variations to input cost escalators, on costs and overhead rates</u> In the current period, the AER decided that input cost escalators, on costs and overhead rates would not be fixed in the Distribution Determination. The AER stated that fixing the rates "could detract from the cost reflectivity of quoted and fee based service prices under the price cap control mechanisms and adversely affect the DNSPs' administrative and governance processes and procedures".[15] Therefore, the Distribution Determination set out an indicative price path for our labour and material

[15] AER (2010), *Final Decision, Queensland distribution determination 2010–11 to 2014–15*, May 2010, p356.

	formula components, as well as indicative on cost and overhead rates. Ergon Energy was then allowed to set out any variations in our annual Pricing Proposal. Ergon Energy considers that the formulae should allow variations to the above components to ensure cost reflectivity. We do not believe the proposed formulae currently permit this. In particular, the proposed formulae appear to only allow us to escalate the previous year's price by changes in the CPI. However, Ergon Energy believes that we should be allowed to recover any real increases in the underlying input costs throughout the regulatory control period. This is because we may not have control over increases for some input costs (e.g. the cost of materials and any other costs we may incur from other parties when delivering a customer-requested service). The AER's proposed approach also places significant weight on the first year prices. This poses a risk to both consumers and Ergon Energy (i.e. in the event the prices are not accurate). For example, this may lead to prices being higher than would otherwise be the case if updates to inputs, on costs and overhead rates are allowed each year.
The AER's preliminary formulae to apply to Standard Control Services, which the AER may reclassify as Alternative Control Services, are set out on pages 55 and 56 of the Preliminary Positions Paper.	Please refer to our comments above.
Classification of services	
Part B, section 1 and Appendix B of the Preliminary Positions Paper set out the AER's proposed classification of distribution services.	Please refer to our detailed comments in the 'Classification of services' section below.
Service Target Performance Incentive Scheme	
The AER will continue to apply the STPIS in the next period. The AER will apply the national STPIS in its current form.	Ergon Energy agrees with the continued application of the national STPIS scheme in the next period.
The Guaranteed Service Level (GSL) component will not apply as Ergon Energy is subject to a jurisdictional GSL scheme.	Ergon Energy supports this position.
The AER's preliminary position will be to: • Set revenue at risk within the range ± 5 per cent. However, the AER will reconsider this position once they see the outcome of work underway by the Australian Energy Market Commission (relating to linking reliability standard and reliability settings with the value of customer reliability). • Segment the network according to their interpretation of the Standing Committee on National Regulatory Reporting	<u>Revenue at risk</u> Ergon Energy supports a framework that incentivises improvements in service performance for our customers. However, in accordance with clause 6.6.2(b)(3)(vi) of the NER, the AER must take into account customers' willingness to pay when setting the revenue at risk. Ergon Energy's 'value to customer' research program, which commenced in 2001, provides a metric that allows us to monitor how our customers judge value in terms of what they receive versus the price they pay. Our latest research (January-June 2013)

Requirements feeder categories (CBD, urban, short rural and long rural) in Queensland jurisdictional licence conditions. • Set applicable reliability of supply (system average interruption duration index (SAIDI) and system average interruption frequency index (SAIFI)) and customer service (telephone answering) parameters. • Set performance targets based on our average performance over the past five regulatory years. • Apply the methodology indicated in the national STPIS for excluding specific events from the calculation of annual performance and performance targets. • Apply the methodology and Value of Customer Reliability (VCR) values as indicated in the national STPIS to the calculation of incentive rates.	has found that "Affordability" is the biggest driver of overall satisfaction (44 per cent), and customers rate it as the poorest performing. Conversely, "Supply" was considered the least important driver of overall satisfaction (10 per cent); however, it is rated as the highest performing. This means our customers' focus is on improving affordability, over supply. Providing incentives to further improve supply is likely to negatively impact affordability in the long run. Therefore, Ergon Energy considers that a maximum revenue at risk of ± 2 per cent (inclusive of the telephone answering parameter), as per the current period, is a more appropriate threshold consistent with customer expectations. <u>Feeder categories</u> Ergon Energy believes that our network should be segmented into urban, short rural and long rural feeder categories. <u>Parameters</u> Ergon Energy supports the application of SAIDI, SAIFI and telephone answering parameters. <u>Value of customer reliability</u> Ergon Energy agrees there is likely to be insufficient time to incorporate the findings of the VCR reviews in the national STPIS. Therefore, subject to any proposal for an alternative VCR estimate in our Regulatory Proposal,[16] we accept the AER's preliminary view that the VCR values contained in the national STPIS should be applied to the calculation of incentive rates.
Efficiency Benefit Sharing Scheme	
The AER will apply the new Efficiency Benefit Sharing Scheme (EBSS) in the next period.	Ergon Energy notes the AER's intention to apply the new EBSS.
The distribution determination will specify how the AER will apply the EBSS.	Nil comment.
Capital Expenditure Sharing Scheme	
The AER will apply the new Capital Expenditure Sharing Scheme (CESS) in the next period.	Ergon Energy notes the AER's intention to apply the new CESS.

[16] As permitted under clauses 2.2 and 3.2.2(d) of the STPIS.

Demand Management Incentive Scheme	
The AER will apply Part A of the DMIS in the next period (i.e. the Demand Management Innovation Allowance (DMIA)).	Ergon Energy supports the AER's intention to apply the DMIA in the next period. We consider DMIA investments are an important component of our commitment to delivering customer value over the longer term. Our current DMIA program complements our non-network alternative program which is geared towards providing a more efficient solution to network augmentation. To date, the DMIA initiatives have enabled us to investigate innovative approaches for improved knowledge, capacity and management of factors impacting network limitations and their associated costs. Further, it has enabled the adoption of new technologies and processes that facilitate a lower cost of delivering energy. Ergon Energy believes that over the longer term, in addition to addressing network constraint challenges, non-network alternatives can add significant value through providing networks and customers more optionality in solutions. This offers both customers and networks the opportunity to reduce costs through finding solutions that better fit their needs.
The AER noted that there will be new rules and principles guiding the design of a new DMIS. The AER intends to develop and implement a new DMIS during the next regulatory control period, depending on the progress of the rule change process. Therefore, the AER does not propose to indicate an allowance cap in the Framework and Approach.	Ergon Energy notes that the AER intends to develop and implement a new DMIS during the next regulatory control period. If the new DMIS is not in place by the publication date of the final Framework and Approach (i.e. 30 April 2014), Ergon Energy considers that, as a matter of procedural fairness, the revised scheme should not apply to us in the next regulatory control period. It would also be inappropriate to change the details of the scheme applying to Ergon Energy mid-period. Certainty is required in order to maximise the efficiency of the funding opportunity. Therefore, the DMIS, in its current form, should apply for the whole period. Further, if the AER intends to apply Part A of the DMIS (i.e. the DMIA), the AER should indicate an allowance cap in the final Framework and Approach. This is because Ergon Energy must include a revenue increment for the DMIS building block in our calculation of the Annual Revenue Requirement for each regulatory year of the next regulatory control period in the Post Tax Revenue Model (PTRM), which accompanies our Regulatory Proposal.[17] Additionally, an uncertain allowance cap constrains our ability to develop DMIS projects or plans for the next regulatory control period. Ergon Energy requests that the AER maintain the current DMIA cap of $5 million, with equal annual instalments of $1 million per year in the next regulatory control period.

[17] Clause 6.4.3(a)(5) of the NER provides that one of the building blocks to be used in the calculation of the Annual Revenue Requirement is a revenue increment or decrement (if any) for the regulatory year arising from the application of the DMIS.

Small-scale Incentive Scheme	
The AER has not developed a Small-scale Incentive Scheme (SSIS) yet. Therefore, the AER will not be stating its preliminary position on the application of this scheme to Queensland distributors.	The AER has indicated that it will not be stating its preliminary position on the SSIS as it has yet to develop the scheme. Ergon Energy notes the Framework and Approach paper must set out the AER's proposed approach (together with its reasons for the proposed approach) to the application of any SSIS. If a SSIS is not in place by the publication date of the final Framework and Approach, Ergon Energy considers that, as a matter of procedural fairness, the scheme should not apply to us in the next regulatory control period. We require sufficient time to be able to propose how the SSIS should apply to us in our Regulatory Proposal and to address any issues with the scheme.
Expenditure Forecast Assessment Guideline	
The AER intends to apply its Expenditure Forecast Assessment Guideline, including the information requirements. The AER intends to apply all the assessment tools set out in the Expenditure Forecast Assessment Guideline. The tool kit consists of: • Models for assessing proposed replacement and augmentation capital expenditure (capex) • Benchmarking (including broad economic techniques and more specific analysis of expenditure categories) • Methodology, governance and policy reviews • Predictive modelling and trend analysis • Cost benefit analysis and detailed project reviews.	Ergon Energy notes that the RIN issued in advance of a DNSP lodging its Regulatory Proposal will specify the exact information requirements for expenditure assessment.[18] Therefore, compliance with information requirements within the Expenditure Forecast Assessment Guideline would be met through compliance with the Reset RIN. Ergon Energy has concerns with some aspects of the Expenditure Forecast Assessment Guideline, particularly in relation to the AER's potential reliance on benchmarking under a compressed timeframe for information collection and analysis. Ergon Energy will monitor developments and make more representations as part of our Regulatory Proposal.
The AER notes that some customisation of the data requirements contained in the Expenditure Forecast Assessment Guideline might be required. Any data customisation issues will be addressed through the RIN that is issued to DNSPs for the next period, after the AER has finalised its decisions on classification and form of control.	Ergon Energy notes that information required under the Economic Benchmarking and Category Analysis RINs will be completed before the final Framework and Approach paper has been published. Therefore, data customisation issues can only be relevant to forecast information. To the extent that data customisation occurs, there may be differences between historic and forecast information.

[18] AER (2013), *Better Regulation, Expenditure Forecast Assessment Guideline for Electricity Distribution*, November 2013, p25.

Depreciation	
The AER's preliminary position is to use forecast depreciation. This, in combination with the proposed CESS, will maintain incentives for Ergon Energy to pursue capex efficiencies.	Ergon Energy supports the use of forecast depreciation given the AER's intention to apply the CESS in the next regulatory control period.
Dual function assets	
The AER is not required to, and will not make any determination under the NER relating to dual function assets.	Ergon Energy supports this position.
Jurisdictional and legacy issues – Regulatory issues	
<u>Negotiating framework</u> A negotiating framework is only required as part of the Regulatory Proposal if the AER indicates, as part of the Framework and Approach, that services will be classified as negotiated distribution services.	Ergon Energy agrees with this position.
<u>Mount Isa-Cloncurry network</u> The Mount Isa-Cloncurry network may be included in Ergon Energy's Regulatory Proposal.	Ergon Energy supports this position and will include the Mount Isa-Cloncurry network in our Regulatory Proposal for the next period. We request that the AER no longer include this as a matter to be addressed in the final Framework and Approach paper.
<u>Asset categories, asset lives and asset tax lives</u> The AER will review asset categories and asset lives submitted with Ergon Energy's Regulatory Proposal. The AER expects Ergon Energy to submit a completed Roll-Forward Model and PTRM as required under the NER, and to explain any deviations from asset classes and asset lives used for these models in our last determination. Public lighting assets should be excluded from the Regulatory Asset Base (RAB).	Ergon Energy accepts the AER's views on these matters. We request that the AER no longer include this as a matter to be addressed in the final Framework and Approach paper.
<u>RAB value</u> In 2008, Ergon Energy asked the AER to approve proposed adjustments to our RAB value. A similar adjustment has not been proposed for the next period. The AER will consider our RAB as part of the Distribution Determination.	Ergon Energy notes that this matter referred to an adjustment to the RAB for the last period and that we have not proposed any adjustments, at this time, for the next period. We agree that the AER should consider the RAB value as part of our Distribution Determination and request that the AER no longer include this as a matter to be addressed in the final Framework and Approach paper.
<u>Prudency review</u> Under transitional arrangements in the NER, the AER is unable to	Ergon Energy agrees with this view. We note that any review of past capex and opex will be undertaken in accordance with the AER's Expenditure Forecast Assessment

review the prudency of past capex in their determination for the next regulatory control period. However, the AER will review past capex and operating expenditure (opex) to inform its decision on the forecast expenditure to apply in the next period.	Guideline. We request that the AER no longer include this as a matter to be addressed in the final Framework and Approach paper.
<u>Cost pass throughs</u> The AER will make a decision on nominated pass through events as part of its Distribution Determination. The AER noted that the NER now define what 'material' means in relation to a cost pass through event. The AER will assess proposals related to Alternative Control Services as part of its Distribution Determination.	Ergon Energy accepts these positions and requests that the AER no longer include this as a matter to be addressed in the final Framework and Approach paper.
<u>Application of security of supply standards</u> Required expenditure should achieve compliance with all applicable regulatory obligations or requirements. The AER will refer to the Queensland Government's policy on security of supply standards applicable to distributors.	Ergon Energy agrees that the AER should liaise with the Queensland Government on this matter. We note that a number of changes to the security of supply standards occurred following the 2011 Electricity Network Capital Program Review. Further, in its *Electricity Network Costs Review Final Report*,[19] the Independent Review Panel on Network Costs recommended that outcome-based reliability standards should replace the current redundancy-based standards (N-1). This was ratified by the Interdepartmental Committee on Electricity Sector Reform (IDC)[20] and the recommendation accepted by the Queensland Government.[21] This recommendation is being progressed by the Queensland Government. We request that the AER no longer include this as a matter to be addressed in the final Framework and Approach paper.
Jurisdictional and legacy issues – Transitional issues	
<u>Treatment of capital contributions in calculating the annual revenue requirement</u> Under the current transitional approach, Ergon Energy adds the value of forecast capital contributions into our RAB. To offset these additions, paid for by customers, the AER makes revenue reductions	Ergon Energy notes the AER's findings. In addition to the changes to the RAB, revenue adjustments will also need to be made in the next regulatory control period to offset the value of our forecast capital contributions for 2013–14 and 2014–15 (as per current transitional arrangements). We also note that there will be changes to future period corporate income tax allowances.

[19] Available at http://www.dews.qld.gov.au/__data/assets/pdf_file/0010/78544/irp-final-report.pdf.
[20] IDC (2013), *Report to Government*, May 2013, p13.
[21] Queensland Government (2013), *Queensland Government response to the IDC*, p4.

of equal value to our forecast regulated revenues. For the next regulatory control period, the NER require DNSPs to exclude the value of capital contributions from their RAB.	We seek confirmation from the AER that they accept these revenue adjustments are necessary. Having said this, we do not believe the corporate income tax matter should be a matter specified in the final Framework and Approach.
<u>Treatment of solar feed-in tariffs</u> The AER will consider treatment of solar feed-in tariffs as part of the Distribution Determination. The AER has indicated that it may smooth year to year spikes in revenue requirements, subject to restrictions established by the NER, and are willing to minimise adverse consumer impacts.	Based on the AER's discussion on pages 82 and 83 of the Preliminary Positions Paper, Ergon Energy understands that the difference between forecast and actual solar feed-in tariff payments for 2013–14 and 2014–15 will be recovered in the next regulatory control period through some form of mechanism. To ensure we lodge a Regulatory Proposal consistent with the AER's expectations and NER requirements, Ergon Energy seeks clarification from the AER on how they would like us to propose the recovery of these costs. Our initial interpretation of the NER suggests that recovery of these current period costs would be exercised through the annual Pricing Proposal process as an adjustment within the Standard Control Services control mechanism formula (and, therefore, outside of the determination of the X-factor). As highlighted above, Ergon Energy considers this adjustment would be a 'transitional adjustment' in the MAR formula. Ergon Energy seeks further guidance from the AER as to whether this is an appropriate approach, before we lodge our Regulatory Proposal. Ergon Energy is aware that, in addition to recovering current period costs, we will need to propose an approach to recovering solar feed-in tariff costs incurred in the next regulatory control period (i.e. under the new jurisdictional scheme arrangements). Ergon Energy is keen to mitigate the price impacts associated with the overlapping period, and has assessed a number of options to achieve this. Our initial preferred position is to: • Recover the solar feed-in tariff pass through amounts for 2013–14 and 2014–15 in the first two years of the next regulatory control period (as per the current determination) • Treat the solar feed-in tariff payments as jurisdictional scheme amounts for the next regulatory control period • Delay the recovery of the jurisdictional scheme amounts by two years, such that the jurisdictional scheme amount for 2015–16 would be recovered in 2017–18 of the next regulatory control period, the jurisdictional scheme amount for 2016–17 would be recovered in 2018–19, etc. Under this approach, the AER would assess and approve the cost pass throughs resulting from the current regulatory control under clause 6.1 of the NER. Ergon Energy would nominate, in our Regulatory Proposal, to treat the solar feed-in tariff payments from 2015–16 onwards as jurisdictional scheme amounts and also propose to delay the recovery of the jurisdictional scheme amounts by two years. The

	jurisdictional scheme amounts to be recovered would be included in the annual Pricing Proposals for 2017–18 onwards, and would be adjusted to reflect the time cost of money, such that it would be neutral in net present value terms. Ergon Energy notes that the actual scheme amounts will be known at the time they are included in the annual Pricing Proposal, thereby avoiding the need to forecast these amounts and subsequent adjustments for forecasting errors. Our preferred approach will allow Ergon Energy to avoid the price shocks associated with the transition to recovering the costs of the Solar Bonus Scheme as jurisdictional scheme amounts. There is an implicit assumption that this approach will be carried forward into the subsequent regulatory control period (i.e. 2020–2025) so that solar feed-in tariff payments made in 2018–19 and 2019–20 will be recovered as jurisdictional scheme amounts in 2020–21 and 2021–22, respectively. We would appreciate the opportunity to discuss our proposed approach in more detail with the AER prior to the submission of our Regulatory Proposal.
<u>Assets providing standard control, alternative control and unregulated services under transitional arrangements</u> Ergon Energy must allocate asset costs to service types according to an approved cost allocation method (CAM). Since Ergon Energy's current CAM is consistent with the previous jurisdictional approach, the AER expects Ergon Energy to submit a revised CAM for approval under the relevant provisions of the NER.	Ergon Energy has discussed proposed changes to the CAM at an officer level, including the need for a truncated timeframe for any approval of proposed changes. While changes to the CAM are necessary, they will only go part way to addressing the transition from previous jurisdiction-based approaches toward more consistent approaches implicit in the NER. We are working through a number of issues associated with existing arrangements, including the use of shared assets for Alternative Control Services, the transition to new arrangements for accounting for capital contributions and gifted assets, as well as the implication of this for revenue adjustments and taxation allowances. We look forward to engaging with the AER on these matters going forward, including working with the AER on finalising changes and expediting approvals.
<u>Recovery of charges for using the Cloncurry 220kV network and recovery of entry and exit charges for non-regulated connection points with Powerlink's transmission network</u> Under the NER, Ergon Energy may include our expected costs related to the Cloncurry 220kV network and non-regulated Powerlink connections in our Regulatory Proposal. The AER would consider them as part of its Distribution Determination process. Subject to AER approval, Ergon Energy would then recover the approved costs for these matters in our charges for Standard Control Services without the AER assessing them again.	Ergon Energy notes the AER's preliminary position. We have been discussing with Powerlink, at an officer level, the future of the non-regulated Powerlink connection points, and will propose our preferred approach to the treatment of these costs in our Regulatory Proposal. Ergon Energy notes the AER's preliminary view that the costs associated with the Cloncurry 220kV network will need to be included as part of the AER's Distribution Determination. These costs have previously been recovered through the annual Pricing Proposal process as a designated pricing proposal charge. As such, they have not been included as part of the expenditure requirement. If these costs are to be included in the opex forecasts, we assume the treatment of such costs will therefore be a step change to any base year opex. Ergon Energy seeks confirmation from the AER that this is their expectation.

Jurisdictional and legacy issues – Revenue issues	
<u>Revenue adjustments for the carry forward of over-recovery or under-recovery of revenue</u> The AER will continue to liaise with DNSPs on the existence and size of any over or under-recovery, and how they may be managed. The AER proposes not to address this in the Framework and Approach, as it is related to the Distribution Determination.	In our 2012–13 Pricing Proposal, Ergon Energy received AER-approval to introduce a longer term plan to clear DUOS under-recoveries associated with the 2010–15 regulatory control period. This plan allows Ergon Energy to progressively clear the balance of the DUOS unders and overs account in setting prices during the 2010–15 regulatory period, and clear any residual balance left in the DUOS unders and overs account at the end of the period through a carry-over adjustment in the 2015 PTRM. There has been no decision on how this adjustment will be determined and approved by AER, or how it will be entered into the PTRM. Ergon Energy has developed and provided to the AER, at an officer level, our proposed approach for carrying forward the under-recovery of revenue into the next period. Our proposed approach is to: • Adjust the closing balance of the 2014–15 DUOS unders and overs account by the Weighted Average Cost of Capital (WACC), in order to calculate the amount of the carry over in $2015–16 nominal terms. This is consistent with the current approach of indexing the closing balance of the DUOS unders and overs account in year t-1 for one year's worth of interest (to arrive at an opening balance in year t). To avoid circular updates to the WACC parameter in the carry-over amount calculations, Ergon Energy proposes to apply the nominal WACC approved in the current period (9.72 per cent). • De-escalate the above amount by CPI to arrive at the total carry-over amount in $2014–15 real terms. We propose to use the same out-turn CPI that is used in the MAR formula in our 2014–15 Pricing Proposal (which will be based on the annual change in CPI as at March 2014). • Allow Ergon Energy the discretion to decide the profile of how the carry-over amounts should be entered into the PTRM, and for the AER to approve this through the Distribution Determination process. This is because there will be a range of other recoveries and revenue adjustments that will need to be processed outside the revenue allowance determined by the PTRM, but will still impact customers prices (e.g. solar feed-in tariff cost pass throughs relating to 2013–14 and 2014–15). This approach will allow us to use the carry-over as one of the 'levers' and mechanisms to help smooth out any expected volatility in customer prices in the next regulatory control period. As this issue directly impacts inputs to our Regulatory Proposal, Ergon Energy would appreciate a decision on these issues prior to the Regulatory Proposal submission. We will continue to liaise with the AER on this matter.

Capital contributions policy in the absence of NECF rule requirements The Queensland Government has announced it will implement the National Energy Customer Framework (NECF) in 2014. The AER is monitoring this matter and liaising with the Queensland Government on its NECF implementation.	Ergon Energy notes that the Queensland Government has conditionally agreed to adopt the NECF in 2014. This is subject to further consideration of options to ensure protections for customers in regional Queensland are delivered.[22] The Queensland Government has not yet announced a specific implementation date. Given this uncertainty, Ergon Energy considers that the AER should clarify its approach to capital contributions in the absence of the NECF.

[22] Department of Energy and Water Supply (2013), *National Energy Customer Framework*, 2 September 2013, http://www.dews.qld.gov.au/policies-initiatives/electricity-sector-reform/supply/customer-framework, Accessed 9 January 2014.

Classification of distribution services

General comments

Ergon Energy is generally comfortable with the approach taken by the AER for most services. However, we believe that the AER's classification of distribution services table, and the descriptions contained within, can be improved to better inform and make it easier for customers to understand what services are regulated. The table provides a tool to enhance customers' understanding of what they need to pay for, and to assist Ergon Energy staff in their interpretation of what customers need to pay for.

We have found the AER's classification of distribution services table in the current regulatory control period is difficult to interpret. Improvements have been made with the proposed table, but Ergon Energy considers further refinements are needed. For example, the level of description in the proposed table is inconsistent with high level definitions and examples provided in some areas and more exhaustive lists in others.

The table should clearly define services and provide examples. Detailed descriptions of each service should then be submitted by the DNSP as part of its Classification Proposal in the Regulatory Proposal. For this reason, we prefer the more high level definitional approach adopted by the AER in its Preliminary Positions Framework and Approach Paper for South Australia.

We consider that a definitional approach should encompass all services, unless separately identified. This does not create an endless list. Rather, it indicates that every service a DNSP is obliged to provide in its role as a DNSP should be subject to direct control because it is the monopoly service provider. It also ensures that there are no perverse outcomes if a particular service, function or cost is inadvertently omitted from the classification of distribution services table.

There are some services that can be grouped, and subject to an Alternative Control arrangement because of the nature of the service. However, for all other activities the AER needs to choose between having monopoly services that are subject to controls on revenue and price, or having no control over how these services are priced.

Additionally, the framework should allow us to introduce new services within the period to reflect changes in the market environment (e.g. new technologies and energy reforms). Exhaustive and prescriptive lists do not allow this. In accordance with section 7A of the National Electricity Law, we should be able to recover our efficient costs in providing direct control services, even if the relevant service is not explicitly listed in the AER's table.

In our view, DNSPs are in the best position to design and future proof the list of distribution services, as it applies to their network and service offerings. Ergon Energy does not believe it would be in the long term interests of consumers, if the service classifications restrict a DNSP's ability to offer services to our customers, or our ability to recover efficient costs.

We believe these issues are best overcome by the AER and DNSPs working together to design an optimal table that is customer focused, and fit for purpose for each of the DNSPs.

Ergon Energy is happy to work with the AER to make further refinements to the classification of distribution services table. We will revise the table over the coming weeks and provide it to the AER.

Large customer connections

The AER is interested in stakeholder feedback on whether the design and construction of large customer connections could be reclassified as negotiated services. Large customer connections should remain classified as an Alternative Control Service in the next regulatory control period. A negotiated service classification provides little benefit to customers and would not promote further competition. Alternatively, if the AER is interested in promoting further competition in this area, it should consider removing regulatory controls or providing sufficient headroom in Ergon Energy's regulated price to encourage competition.

Under the current Alternative Control Service framework, the terms and conditions of access for large customer connections are largely agreed by the customer and Ergon Energy, with the terms and conditions on price being determined by the relevant formula set by the AER. Moving to a negotiated framework would not change the terms and conditions of access, but would allow the terms and conditions on price to be negotiated between the customer and Ergon Energy.

Given this service is already subject to contestability, it is not clear what the incremental benefits of moving to a negotiated service classification are. Where contestability exists, customers should be encouraged to seek out the most competitive price, rather than negotiate and dispute Ergon Energy's offer under a negotiating framework. Ergon Energy also considers that there is insufficient time to develop a negotiating framework for an implementation date of 1 July 2015.

If the AER wishes to make changes to the current Alternative Control Service classification, Ergon Energy considers that it would be better to treat large customer connections as an unregulated service. This is because:

- There is effective competition in the design and construct of large customer connections in Ergon Energy's distribution area. Currently, 32 per cent of the projects under construction are being built by customers. The remaining projects are being undertaken by Ergon Energy or our contractors.
- There are limited barriers to entry by alternative service providers[23]
- Any market power possessed by Ergon Energy is likely to be mitigated by countervailing market power possessed by large customers[24]
- Ergon Energy has created a register of suppliers that are able to meet existing requirements to connect to our network to simplify the process for large customers to engage companies other than Ergon Energy. This has been included on the ACCC's Exclusive Dealing Notification Register since February 2012 (refer N95717).

Ergon Energy is also currently considering whether other services associated with large customer connections (e.g. pre-connection services) should be classified as unregulated services in the next period.

We also have a number of concerns regarding the demarcation between Standard Control and Alternative Control Service associated with large customer connections. Our preferred approach is

[23] Section 2F(a) of the National Electricity Law
[24] Section 2F(d) of the National Electricity Law

to cover such matters of detail in our Classification Proposal. However, we would appreciate the opportunity to discuss these issues prior to the Regulatory Proposal submission.

Small customer connections

At this time, Ergon Energy supports the AER's preliminary position to retain the current Standard Control Service classification for small customer connections[25] (except real estate developers, refer below). We do not believe these connections should be subject to Alternative Control Service arrangements.

In determining whether a direct control service should be a classified as a Standard Control Service or an Alternative Control Service, the AER must have regard to the following matters:

- The potential for development of competition in the relevant market and how the classification might influence that potential
- The possible effects of the classification on administrative costs of the AER, the DNSP and users or potential users
- The regulatory approach (if any) applicable to the relevant service immediately before the commencement of the Distribution Determination for which the classification is made
- The desirability of a consistent regulatory approach to similar services (both within and beyond the relevant jurisdiction)
- The extent the costs of providing the relevant service are directly attributable to the person to whom the service is provided
- Any other relevant factor.[26]

Our comments on these considerations are discussed below.

To the extent that the AER wishes to change the classification for small customer connections, the AER would need to clearly identify for customers what services are subject to the Alternative Control Service mechanism, and what services will be classified as an Standard Control Service (and recovered through DUOS charges). For example, Ergon Energy envisages that the commissioning and energisation for small customers will continue to be classified as a Standard Control Service, while the design and construct of the connection assets could be an Alternative Control Service.

Potential for development of competition

We expect there is little potential for contestability to develop in small customer connections in the short term, particularly in regional and remote areas of Ergon Energy's network.

Administrative costs

If small customer connections are reclassified, Ergon Energy would need to amend our billing, network pricing and financial systems, operational processes and public documents. Also, there are likely to be administrative costs involved in communicating the new approach to customers, and responding to increased customer queries.

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[25] Although we support a continuation of the current classification for small customer connections, Ergon Energy notes that the definition of a large customer could be broadened to include Standard Asset Customers connected at high voltage (HV). This means these customers, who are currently classified as small, could be subject to an Alternative Control Service arrangement from 2015–16.
[26] Clause 6.2.2(c) of the NER

Current regulatory approach

As highlighted above, small customer connections are currently classified as a Standard Control Service in Queensland.

Desirability of a consistent regulatory approach

Ergon Energy notes that the AER intends to classify large customer connections as an Alternative Control Service. While this differs to the approach proposed for small customer connections, Ergon Energy considers that there are valid reasons for this variance (e.g. the limited potential for contestability in the short term for small customer connections in our distribution area and the impacts on small customers of moving to an upfront cost approach).

We also consider that it may not be appropriate to adopt the same classification for small customer connections for Ergon Energy and Energex, due to differences in a 'typical' connection in our distribution area (e.g. higher incidence of rural and remote connections where costs to extend and/or make a new connection to our network are higher), as well as a greater proportion of vulnerable customers in regional Queensland.

Further, legislative and regulatory regimes often differ significantly in their application across jurisdictions. As a result, the method by which connection services are classified also varies, making a consistent approach across jurisdictions challenging.

Attributing costs

Ergon Energy recognises that under a Standard Control Service classification, small customers do not pay the full cost of their connection to the network upfront. However, small customers can still receive a 'user pays' signal through capital contribution payments (paid in conjunction with network charges), without changing the current Standard Control Service classification.

Other factors

Ergon Energy is cognisant of the significant impact a change of classification to Alternative Control Services could have on residential and small business customers, particularly if customers are required to fund costs on an upfront basis. In many cases, we would expect the upfront cost in making a connection to our network too great a hurdle for many small customers to pay. This has the potential to push customers to alternative arrangements and remove the viability of some developments.

Ergon Energy also envisages that there might be a number of regulatory changes needed to support and protect consumers. For example, if an amortisation approach is adopted and an incoming customer is responsible to pay for the connection charges applying to the premises, this would need to be communicated to the customer. Further, there may be issues if the new customer does not require the capacity of connection assets that the previous owner installed.

A staged approach may also be required, so that the Alternative Control Service arrangements only apply to new customers from a certain date.

Finally, a substantial amount of stakeholder engagement will be needed to inform customers of the new approach and enhance their understanding of its impacts. We believe it would be difficult to undertake this work, in addition to internal system changes required, before 1 July 2015.

Real estate developers

With respect to connection services provided to real estate developers, it is Ergon Energy's view that these services should be separately distinguished and classified from small customer connections and large customer connections. This is because under current jurisdictional arrangements and our current Capital Contributions Policy, real estate developers fully fund the costs of making an electricity supply available to the development (i.e. connection between our network and the development). This is a reflection of Local Government policy.

If the NECF comes into effect in Queensland by the commencement of the next regulatory control period (i.e. 1 July 2015), Ergon Energy will be required to apply the AER's Connection Charge Guidelines. Under these guidelines, Ergon Energy would have to provide developers with a contribution, which means developers would no longer pay the full costs of connecting.

To ensure a continuation of the current policy, Ergon Energy requests that a separate grouping within 'Connection Services' be created to cover costs associated with an extension for a real estate developer (i.e. design and construct, and commissioning and energisation services).

Ergon Energy also proposes that an Alternative Control Service classification be applied. This is because:

- There is effective competition in subdivision works in Ergon Energy's distribution area. From January 2013 to December 2013, a total of 416 subdivision offers were accepted. Of these, 50 per cent were to be designed and constructed by external resources.[27]
- The costs are directly attributable to the real estate developer requiring the connection. The real estate developer then recovers these costs through the sale price of the land.[28]

Pre- and post-connection services

It is unclear whether pre- and post-connections will have their own AER service group (as suggested in Appendix B) or they will be a sub-grouping under Connection Services (as set out in Table 6 on page 40 of the Preliminary Positions Paper). Ergon Energy seeks clarification on this matter.

As highlighted above, Ergon Energy is also considering whether other services associated with large customer connections could be classified as unregulated in the next period. This would include certain pre-connection services and other support services (e.g. environmental and cultural heritage assessments and community engagement) provided to large customers who choose to design and construct connection assets themselves. This is because we consider there is effective competition in large customer connections and limited barriers to entry for alternative providers to offer the associated pre-connection and support services that Ergon Energy can otherwise provide.

Public lighting

The AER is seeking stakeholder feedback on whether public lighting for Energex should be reclassified as a negotiated service.

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[27] Clause 6.2.2(c)(1) of the NER
[28] Clause 6.2.2(c)(5) of the NER

We recognise the AER is not proposing a similar reclassification for Ergon Energy at this time. However, given the AER's preference to classify Energex and Ergon Energy's distribution services consistently, the AER may consider reclassifying our street lighting services in a similar manner if the Alternative Control Service charge for street lighting services is seen in its entirety by customers in our distribution area in the future.

Ergon Energy considers it would be inappropriate for this service to be negotiated. Ergon Energy believes that the requirements of Local Councils can be met within the existing Alternative Control Service framework.

Further, Ergon Energy has 68 street lighting customers, with some customers having multiple accounts. Negotiating with each customer would impose significant administrative costs on us. We also consider that smaller councils may not have sufficient resources to effectively participate in the negotiation process.

Emergency recoverable works

Ergon Energy does not support the AER's proposed reclassification of emergency recoverable works as an unregulated service. In classifying distribution services that have previously been classified, the AER "must act on the basis that, unless a different classification is clearly more appropriate… there should be no departure from a previous classification".[29] Ergon Energy considers that the AER has not provided sufficient evidence and justification to support their proposed change in classification.

We believe that emergency recoverable works should remain classified as a direct control service since:

- Emergency recoverable works are clearly a monopoly distribution service and there is no potential for the development of competition[30]
- It is in the interests of all customers that Ergon Energy repair damage to the shared network.

The AER has indicated "that emergency recoverable works are distinguishable from other network services…because the cost of these works may be recovered under law".[31] An unregulated classification therefore means Ergon Energy is unable to recover costs from all consumers and we must seek costs from the identifiable party. Ergon Energy notes that there is not always an identifiable party. In these circumstances, we would be unable to recover costs under the common law approach.

Further, Ergon Energy currently experiences difficulties in the recovery of costs from insurers and unidentifiable parties. On average, we currently only recover about half our invoices from debtors and the remainder are written off. Many of the debtors who do pay, enter into payment arrangements which are effectively interest free loans and the small regular payments we receive barely cover our administration and processing costs. Other debtors enter into payment arrangements via a debt service collector, so we also lose a further margin to cover their fees.

In our view, if emergency recoverable works are unregulated, it would be even more difficult to recover the costs of damage to our assets because of the time delays and serious cost impost that

[29] Section 2F(a) of the National Electricity Law
[30] Clause 6.2.2(c)(1) of the NER
[31] Page 24, Preliminary Positions Paper

would be incurred by Ergon Energy in reverting to seeking costs under the common law position. It would also be administratively burdensome and require extra staff resources to issue the invoices and undertake the debt recovery work. It is unforeseeable under common law how full costs could ever be recovered.

It is also important to note that about half of our invoices relate to damage that is less than $2,000. In most cases, it would not be cost effective to pursue recovery of these costs in a court of law.

Ergon Energy believes this service should be reclassified as a Standard Control Service, and more specifically, as a network service. The AER has stated that "network services are at the core of what an electricity distributor does, including constructing and maintaining those parts of the network that everyone uses".[32] Repairing damage that affects the shared network, whether it is caused by a weather event or a car-hit-pole situation, is beneficial to all customers.

Services as a result of customer or third party action or negligence

Ergon Energy provides a number of services as part of satisfying our general obligations as a DNSP, which are only required as a consequence of customer or third party action or negligence. These services are similar in nature to Emergency Recoverable Works, such as a car-hit-pole scenario. A number of these services are classified as an Alternative Control Service under the current regulatory arrangements. Some of these services include, for example:

- Rectification of illegal connections
- Rectification of non-compliant metering installations
- Removal of redundant meter or load control equipment
- Meter tampering and inspection
- Restoration of supply caused by customer's installation.

Ergon Energy recognises that most of these services are proposed to be classified as an Alternative Control Service within the 'Post-connection services' and 'Auxiliary Metering' service groupings. We also note that there is a new service for protection and power quality assessments under the 'Connection management services' service group which may fall under this category.

Similar to our position on Emergency Recoverable Works, we believe the provision of such services is clearly a monopoly distribution service. Due to the nature of these services, Ergon Energy is not always able to locate an identifiable liable party, or directly attribute such services to a specific request for service from a customer or retailer. This means we are unable to recover these costs under our existing Alternative Control Services charges, or under a common law approach. We believe that we should be entitled to recover at least our efficient costs in providing these services, consistent with the revenue and pricing principles enshrined in the National Electricity Law.

In general, we consider an Alternative Control Service classification is appropriate for services that can be directly attributed to the request of a customer or retailer (or agent acting on their behalf). However, in circumstances where services must be undertaken to satisfy DNSP obligations, and it is not possible to directly attribute costs to a specific customer or service request, then these services should not be subject to a classification (and pricing arrangement) which relies on

[32] Page 21, Preliminary Positions Paper

recovery of costs from a single identifiable customer or retailer. That is, we believe such costs should be incorporated within ongoing DUOS charges, or ongoing Alternative Control Service metering charges to be funded by all customers utilising these services.

Metering services

As highlighted above, Ergon Energy's preliminary view is a building block approach (limited or otherwise) could apply to the 'Type 5 and 6 metering provision, maintenance, reading and data services' service grouping and the initial installation of a meter (currently covered in the 'Type 5 and 6 metering installation' service grouping). This means these costs will be recovered through an ongoing metering charge. The 'Auxiliary metering services' service grouping and customer initiated meter upgrades (currently covered in the 'Type 5 and 6 metering installation' service grouping) could be subject to a non-building block approach (e.g. formula-based approach), where a separate metering charge would be applied to the customer requesting the particular service.

Ergon Energy notes that a change to an Alternative Control Service classification for Type 5 and 6 metering services will impact customers in regional Queensland who are currently accessing regulated retail tariffs (Notified Prices).

Under an Alternative Control Service classification, metering will become a separate line item on the network bill. Retailers are likely to pass the full cost on to the respective customer. This approach is different from the current arrangements, where Type 5 and 6 metering costs are bundled up into standard DUOS charges and customers do not have visibility of metering costs associated with their premises.[33]

For residential and small business customers in our distribution area who are on Notified Prices, the network cost component of their electricity price is presently either based on Energex's network charges which may incorporate lower metering costs or on transitional non-cost reflective retail tariffs. Further, some large and very large customers in our distribution area who access Notified Prices also have subsidised metering costs as their electricity price is currently based on our East Zone, Transmission Region 1 network charges.

The AER should be mindful of the impact a change of classification will have on these customers.

Additionally, the AER should be cognisant of the operational, pricing and billing impacts associated with the change in classification. As highlighted previously, the AER should also communicate its preferred basis of control mechanism to apply, in order to provide us with sufficient lead time to implement the change in classification and engage with stakeholders.

Ergon Energy also believes a number of services contained within the AER's proposed groupings of 'Metering Services' are not metering services. Rather, they are services provided for the benefit of all customers, or to the benefit of the shared network (e.g. some meter data related services and services relating to load control). In our view, any expenditure required to allow Ergon Energy to undertake load control across the network (network service) needs to be separated from the metering service, which should just relate to the meter itself (including anything within the meter that allows load control to occur). This is because it benefits all customers through a reduction in overall peak demand and augmentation costs. Further, the application of load control charges via

[33] With the exception of large market customers that have a Type 1 to 4 metering installation. These customers may have transparency of metering related charges on their electricity bill, depending on their retail contract with their chosen retailer.

an Alternative Control Service charge to individual customers may reduce incentives for new and existing customers to adopt load control tariffs.

This is discussed further in our table of detailed comments on the AER's proposed classification of distribution services.

Proposed additional services

The AER appears to have omitted, without justification, some services presently provided for in the current regulatory control period. Ergon Energy considers that the following services should be included in the table:

- High load escorts
- Wasted truck visits
- After hours services.

The following additional services should also be covered by the classification table:

- Priority services
- Distribution services provided in unregulated isolated supply networks
- Services provided to external contractors for contestable work
- Services associated with embedded generation installed within customer's premises
- Aerial markers
- Provision of network data (not covered by other services)
- Change of load control relay channel at customer or retailer request.

Each of these services is discussed below.

High load escorts

For Ergon Energy, this service is comprised of two components: (1) lifting of lines (currently an Alternative Control Service) and (2) scoping the route (currently unregulated). Ergon Energy supports an unregulated classification for both components. This is consistent with the approach adopted by the AER for Energex in the current regulatory control period.[34]

The current approach to splitting the two components of high load escorts creates unnecessary administrative burden for Ergon Energy. We also see benefit in adopting a consistent regulatory approach between Energex and Ergon Energy.

Wasted truck visits

This service relates to circumstances where a service is not able to be completed after the truck has already left the depot. It includes instances where:

- The retailer/customer cancels a service order after the truck has left the depot but before the service order is completed
- The crew is unable to access the site to perform the service order (and no access issues were reported on the service order request)

[34] AER (2008), *Final Decision, Framework and Approach paper, Classification of services and control mechanisms, Energex and Ergon Energy 2010–15*, August 2008, p26.

- The customer has submitted a Form A and the retailer has submitted a service order request, but the installation is not ready upon arrival at the site.

We appreciate the AER's inclusion of "attendance at customer's premises to perform a statutory right where access is prevented" in the other recoverable works section of the classification of distribution services table. However, we do not believe this encompasses all of the scenarios where a wasted truck visit would occur.

In accordance with section 7A of the National Electricity Law, Ergon Energy should be provided with a reasonable opportunity to recover at least the efficient costs we incur in providing direct control services (i.e. Standard Control Services and Alternative Control Services) and complying with a regulatory obligation or requirement or making a regulatory payment. Wasted truck visits are valid costs incurred by Ergon Energy in performing our duties as a DNSP and should remain classified as a separate Alternative Control Service in the classification of distribution services table.

We consider that costs associated with a wasted truck visit should be recovered from the party responsible (i.e. customer or retailer). This sends a clear signal of the true cost of the service and incentivises the appropriate behaviour. That is, it ensures retailers use reasonable endeavours to provide accurate information to the DNSP for the purposes of carrying out a service order request,[35] and encourages customers to provide safe, convenient and unhindered access to the premises.[36]

Based on discussions with the AER, Ergon Energy understands that the AER does not consider a wasted truck visit a service, but rather a cost factor of other services. Therefore, the AER expects any costs relating to a wasted truck visit should be included as a component in the Alternative Control Service price, and would be applied only in instances when the wasted truck visit occurs. However, the AER has not provided any details on this change in approach in its Preliminary Positions Paper.

This approach is problematic because:

- Ergon Energy would be unable to recover costs incurred for wasted truck visits associated with a Standard Control Service.
- A number of our Alternative Control Services are currently subject to maximum price caps under Schedule 8 of the *Electricity Regulation 2006* (e.g. de-energisations and re-energisations after hours, and special meter reads). If the wasted truck visit is included as a component in the Alternative Control Service price, Ergon Energy would be unable to recover the full cost of a wasted truck visit associated with these capped services.
- It creates unnecessary complexity in the pricing structures for fee based services as we would need to create sub-set services with the wasted truck visit costs built in.
- It lacks transparency and may be confusing for customers.

Finally, we note that stakeholders are aware of and accept the current practice and process. If the AER prefers a different approach, it should consult with stakeholders and provide reasons outlining why their approach is more appropriate.

[35] As required by clause 3.2 of the Queensland Standard Coordination Agreement.
[36] As required by clause 8.1 of the Queensland Standard Connection Contract.

After hour services

Ergon Energy appreciates the inclusion of 'after hours' in the description for de-energisations and re-energisations in the classification of distribution services table. However, we believe the AER should provide for after hours services for other services. This will enable us to charge a different price for services that a customer requests us to perform outside of business hours.

Priority services

Clause 2.5.5(c) of the Queensland Electricity Industry Code (Code) allows retailers to request, on behalf of a small customer, the DNSP to reconnect the small customer "sooner than is required under clause 2.5.5(a)" of the Code. Clause 2.5.5(a) sets out the reconnection timeframes for Ergon Energy.

If the reconnection is made in advance of the requested timeframe (i.e. if the service order request is received after 1.00pm but Ergon Energy can complete the request on the same day), Ergon Energy may charge the relevant fee published in our price list. The right to charge that fee is not contingent on the reconnection being performed after hours. That is, it could be performed during business hours on the same business day it is requested.

Presently, we do not have a fee for this type of priority service. We consider that the classification of distribution services should allow us to charge more in these circumstances.

Distribution services provided in unregulated isolated supply networks

Ergon Energy considers that this service should be added as an unregulated service. It relates to Ergon Energy's ownership and operation of 33 isolated system networks (other than the Mount Isa-Cloncurry supply network which is subject to economic regulation by the AER).

Services provided to external contractors for contestable work

Ergon Energy provides advice to external contractors who have been engaged by a large customer to complete the design and construction of connection assets. The advice relates to services the customer is responsible for under a design-construct-transfer option (i.e. gifted assets), as well as those services the customer is responsible for under a build-own-operate option (i.e. customer owned assets, which will not form part of the distribution system Ergon Energy is responsible for). This assistance is generally required as some external companies do not have the experience or the skills to complete the work without significant support. Since the contractor can approach other suitably qualified contractors for this advice, Ergon Energy believes this service is an Alternative Control Service.

However, in certain circumstances, this classification may create arbitrage opportunities. Ergon Energy would like to review whether there are benefits for this service, and other similar types of services, being specifically identified as unregulated. We will engage with the AER on these matters in the coming weeks.

Services associated with embedded generation installed within customer's premises

As highlighted previously, our customers have more reason to consider alternative means to our distribution network services, including embedded generation and storage. Over the current

regulatory control period our business has experienced unprecedented growth and uptake of customers installing embedded generation (Inverter Energy Systems (IES)) within their electrical installations. As a result, the volume and scope of services provided in connection with IES throughout the current regulatory control period have far exceeded our expectations.

Therefore, Ergon Energy believes that a number of additional services associated with embedded generation installed on customer's premises should be incorporated into the list of distribution services.

These services are discussed below.

Witness Testing

As part of assessing connection applications associated with Embedded Generators (e.g. solar photovoltaic (PV) systems, diesel generators or wind turbine generators), Ergon Energy requires testing to be undertaken on the customer's installation, either by Ergon Energy or by a registered professional engineer of Queensland (RPEQ). This is to ensure the installation is safe and meets our standards, as well as ensuring the generator is not going to adversely impact on our network. This 'witness testing' is required, regardless of whether the customer's generator is going to export into the distribution system. As the cost of the test can be specifically attributed to the customer requesting the service, Ergon Energy considers the service should be classified as an Alternative Control Service.

Assessment of Parallel Generation Applications

Ergon Energy receives a number of 'parallel generation' applications from customers seeking to install a generator within their installation which will not export into the distribution system. As the customer is not seeking to make (or alter) their connection to the network, these services fall outside of the scope of 'Connection Services' and the connection process. As Ergon Energy still needs to assess the customer's application and undertake other work in connection with embedded generation (e.g. witness testing), Ergon Energy considers this service should also be classified as either an Alternative Control Service or an unregulated service.

Potential distribution services arising out of IRP Recommendations

In the final report to the Queensland Government, the IRP identified a number of inefficient practices that impose additional costs on DNSPs. In particular, the IRP recommended action is taken to ensure that solar PV installations are not connected to the network until a new meter has been installed and the inverter maximum voltage settings have been verified as compliant with the connection and installation agreements.

There are a number of options for addressing these issues, many of which may result in DNSPs having to perform additional services.

Therefore, Ergon Energy believes that the framework for the classification of services be flexible enough to allow us to introduce new services within the next period to reflect changes in the market environment.

Aerial markers

Ergon Energy wishes to include an additional service to cover circumstances where customers request aerial markers (or Powerlink Hazard Identifiers) to be installed (and maintained) on

network assets. This service is not covered by the current classification of services. In our view, this service is similar in nature to the coverage of low voltage lines (tiger tails), which is currently classified as an Alternative Control Service. Ergon Energy supports a similar classification being applied to aerial markers.

Provision of network data (not covered by other services)

Ergon Energy often receives miscellaneous requests for network data, which is outside the connection process and over and beyond what Ergon Energy considers to be Standard Control Network Services.

In circumstances where network data does not exist, or needs customised advice or investigation (in order to respond to the customer's request), then similar to our position on 'Pre-connection Consultation Services', these services should be treated as Alternative Control Services.

Change of load control relay channel at customer or retailer request

In some circumstances it may be necessary for Ergon Energy to change load control relay channels at a retailer or customer's request. As the request can be directly attributable to the person making the request, and any such request is only for that customer's benefit, Ergon Energy believes this service should be classified as an Alternative Control Service.

Detailed comments on the AER's proposed classification of distribution services

The table below provides detailed comments on the AER's proposed classification of distribution services.

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
AER service group – network services				Ergon Energy requests that a more generic description and definition be applied, so that there are no perverse outcomes if a particular function or cost is inadvertently omitted from the AER's classification table. Ergon Energy also prefers the more high level definitional approach the AER has adopted for 'Network Services' in its Preliminary Positions Framework and Approach Paper for South Australia.	
Planning the network	Network asset – assessment of asset requirements involving investment, management and delivery including risk and feasibility assessment and estimating and cost planning Demand management – the identification and development of non-network options to address forecast network limitations Network forecasting – analysis of network demand to enable the development of the capital program of works Network business strategy development – strategic initiatives development and management including business improvement/efficiency initiatives Governance – developing policies, procedures and standards	Standard control	Standard control	Support, subject to clarifications	Ergon Energy seeks clarification on the AER's expectations around who should fund any planning work on the shared network in feasibility and concept scoping phases in the case of large customer connections. In our view, any planning and design on the shared network in feasibility and concept scoping phases should be an Alternative Control Service. That is, the DNSP should only fund planning and design work on the shared network once a large customer connection applicant has committed to connection works and there has been acceptance of the connection offer. If all planning and design on the shared network is to be a Standard Control Service, all customers will fund the cost of plans that do not go ahead, as well as those costs which can be directly

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
	Regulatory planning as required by the National Electricity Rules				attributed to a specific large customer connection application.
Designing the network	Creation of a plan or the standards and criteria for network construction. Includes developing design standards, protection engineering and designs for augmentation and extensions to the shared network.	Standard control	Standard control	Support, subject to clarifications	As above, Ergon Energy seeks clarification on the AER's expectations around who should fund any design work on the shared network in feasibility and concept scoping phases in the case of large customer connections. In our view, these services should be classified as an Alternative Control Service, and form part of the services provided to large customers under the proposed 'Pre-connection services' service group.
Constructing the network	Network construction, augmenting the shared network and extensions of shared network. Project planning and works management (works program development, procurement, vendor management, contract management, work scheduling and dispatching) Management of environmental issues Asset deployment and commissioning of shared network assets Asset relocation (other than those undertaken at a customer's request)	Standard control	Standard control	Support, subject to further consideration	Ergon Energy has experienced some issues in the current period with splitting up works associated with a large customer connection into Standard Control and Alternative Control Services. The AER could consider an Alternative Control Service classification for augmenting and extending the shared network, where this is directly attributable to facilitating a large customer connection. This would be in line with the AER's proposed approach to Embedded Generators (EGs) (i.e. removal of network constraints). This will effectively mean that all major customers will pay for deep augmentation that is attributable to their connection and any costs associated with extending the shared network (i.e. in addition to any costs associated with construction of their connection assets). If adopted, the DNSP would then develop

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
					high level principles on when the costs would be payable. These principles could be approved by the AER as part of the connection policy (if NECF applies).
Maintaining the network	Planned maintenance – activities carried out to reduce the probability of failure or performance degradation of a network asset Corrective – activities undertaken to detect, isolate and rectify a fault so that the failed equipment, machine or system can be restored to normal operable state Work to restore a failed component of the distribution system to an operational state	Standard control	Standard control	Support	Ergon Energy requests that a more generic description and definition be applied, so that there are no perverse outcomes if a particular function or cost is inadvertently omitted from the AER's classification table.
Operating the network	Network control and operation Outage management Emergency management and response Field operations Switching and testing for network purposes Scheduling and controlling the switching of controllable load for network purposes	Standard control	Standard control	Support	Ergon Energy requests that a more generic description and definition be applied, so that there are no perverse outcomes if a particular function or cost is inadvertently omitted from the AER's classification table. Ergon Energy also notes that costs associated with load control should only apply to Alternative Control Services to the extent they relate to the actual meter. The provision of the load control equipment that is separate to the meter and necessary for safe, secure and reliable operation of the network should be a 'Network Service', and therefore a Standard Control Service.

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
Administrative support for provision of network services	Customer interactions including network product development, customer service management/call centre, complaints and enquiries, record management and network claim processing. Market operations: includes revenue management, network billing, processing of service order requests, market notifications of retailer changes. National Metering Identifier (NMI) establishment, discovery requests and classification in accordance with the rules. Populate and maintain NMI standing data in Market Settlement and Transfer Solution in accordance with the rules. Processing and publication of notifications of new connections and alterations. Pricing strategy and development of pricing proposals Financial and commercial management Compliance monitoring and reporting Procurement activities Technical and safety training of DNSP staff	Standard control	Standard control	Do not support without amendments	Since the classification of services will apply to both Energex and Ergon Energy, it is important to ensure that the descriptions do not refer to specific distributors. Ergon Energy believes that 'Energex' should be removed from the following: "Supply, manage, test and maintain ~~Energex~~ field equipment (other than metering equipment)". Ergon Energy considers there needs to be more definitive boundaries around the scope of 'Market Operations', and in particular what costs associated with network billing should be recovered through Standard Control Services. It should be noted that a number of systems and resources utilised by Ergon Energy for network billing purposes have a dual purpose, and are also utilised for metering related functions and obligations (now proposed to be classified as an Alternative Control Service). Ergon Energy also incurs a range of costs associated with services provided as part of our general obligations as a Local Network Service Provider. These costs are incurred even if Ergon Energy is not the Metering Provider (MP) or Responsible Person (RP) under the NER (as is the case for Type 1 to 4 meter service provision). The AER's classification must ensure such services are classified as a Standard Control Service within the

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
	Supply, manage and maintain DNSP Fleet Retailer management (e.g. credit support) Administration of connections pioneer / rebate scheme Supply, manage, test and maintain Energex field equipment (other than metering equipment) Responding to cold water reports Network claim processing where distributor is at fault External stakeholder interactions (regulatory, government and industry) Environmental health and safety management (risk assessment, monitoring, program management, reporting and training)				'Network Services' grouping. This is because it is more appropriate to recover such costs from all customers, instead of recovering these costs from a specific sub-set of customers that may pay Alternative Control Service metering charges to Ergon Energy. We are also of the view that a number of other services currently listed within the 'Metering Services' grouping are more appropriately classified as Standard Control network services, and should not form part of the costs recovered through Alternative Control Service charges. Ergon Energy's reasons for this are discussed in the 'Metering Services' section below. Finally, Ergon Energy seeks clarification from the AER on whether they are intending to create an exhaustive list under this service grouping, and whether it is the AER's intention to capture activities which may not be directly correlated to a 'service' that is actually provided or utilised by customers. As currently drafted, it appears this list is not exhaustive, and encompasses examples of direct costs and support costs which a DNSP may incur, which are not necessarily directly attributable to services delivered to our customers. For example, Ergon Energy does not offer compliance monitoring and reporting, financial and commercial management or pricing

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	**Service group (incl. description)**
					strategy to customers. While these are necessary functions and costs that Ergon Energy has in our role as a monopoly service provider, they are not 'services' which necessarily need a classification in order to identify how associated costs are to be recovered under a revenue and pricing control regime. If such functions and costs are to be captured within the classification of services, Ergon Energy requests that a more generic description and definition be applied, so that there are no perverse outcomes if a particular function or cost is inadvertently omitted from the AER's classification table. That is, if a cost or function is clearly necessary in our role as a monopoly service provider, and an Alternative Control Service arrangement is clearly not appropriate (i.e. costs need to be shared by all customers), then Ergon Energy should not be restricted from proposing to recover such costs as part of our revenues for Standard Control Services, simply because it has not be listed as a 'service' in the classification table.
AER service group – pre-connection services				Ergon Energy requests that a more generic description and definition be applied, so that there are no perverse outcomes if a particular function or cost is inadvertently omitted from the AER's classification table. Ergon Energy also believes it may be of benefit to incorporate broader NECF definitions and concepts into the service descriptions, so it is	

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
				clear how pre-connection services will be applied to different classes of customers (such as micro-embedded generators, real estate developers and residential and business customers).	
General Connection Enquiry Services	Provision of standard information and general advice during connection enquiry. Includes provision of general connection information (e.g. supply availability) and services associated with assessing a connection applicant's enquiry and providing a response.	Standard control	Standard control	Support, subject to clarifications	Ergon Energy notes that it may be beneficial to customers to clarify what is considered to be 'standard information' and 'general advice'. In our view, standard information and general advice should be limited to the provision of high level process related information and the provision of proprietary network information that already exists, or should reasonably be expected to exist. For example, providing guidance to a customer around how to successfully complete a connection application to the DNSP's requirements should fall under this service. Similarly, providing 'off-the-shelf' network data and information which is readily available in the DNSP's corporate systems should also fall under this service. However, Ergon Energy envisages that this service should not be applied in circumstances where site-specific analysis or engineering input is required in order to respond to a connection applicant's enquiry. If the information does not already exist or needs to be derived, then it is Ergon Energy's expectation that this would fall under either 'Connection Application Services' or' Pre-connection Consultation Services'. That is, the point

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
					at which the DNSP has to undertake customised advice or investigation, the enquiry should become 'site-specific' and trigger the Alternative Control Service arrangements. Ergon Energy requests the AER to confirm this is consistent with the intent of the proposed classifications.
Connection Application Services	Services associated with assessing a connection application, making a connection offer and negotiating offer acceptance. Includes: • Application services to assess connection application and making of compliant connection offer. • Undertaking design for small customer connection offer (excludes detailed design undertaken after a connection offer has been accepted) • Carrying out planning studies and analysis relating to distribution (including sub-transmission and dual function assets) connection applications. • Negotiation services involved in negotiating a connection agreement. • Tender process – DNSP may	Alternative control	Alternative control	Support, subject to clarifications	Ergon Energy seeks clarification from the AER that this grouping of activities will not restrict a DNSP's pricing arrangements. That is, while some of the costs associated with these activities may be incorporated into a connection application fee, DNSPs will still have the flexibility to develop separate services and prices for these activities, if it chooses to do so. Ergon Energy also wishes to clarify that it is not the AER's intent to limit the application of these services (and associated classifications) to circumstances where a connection application has actually been received. For example, should a protection and power quality assessment or planning study be required (or requested) prior to the lodgement of a connection application, Ergon Energy should have the ability to charge for this as a type of 'Connection Application Service' or, alternatively, as a 'Pre-connection Consultation Service' under the Alternative Control Service arrangements. Finally, as Ergon Energy and Energex do

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
	carry out tender process on behalf of connection applicant or DNSP may assist connection application. • Protection and Power Quality assessment prior to connection				not have dual function assets, Ergon Energy suggests removing the reference to dual function assets from the third point.
Pre-Connection Consultation Services	Additional support services provided by the DNSP (on request) during connection enquiry and connection application other than General Connection Enquiry Services and Connection Application Services. Generally relates to services which require a customised or site-specific response and/or are available contestably. Includes: • Site inspection in order to determine nature of connection (small or large customer connection) • Provision of site-specific connection information and advice for large customer connection. • Preparation of preliminary designs and planning reports for large customer connection • Customer build, own and operate consultation services	Alternative control	Alternative control	Support, subject to amendments	Ergon Energy requests amendments be made to the service description to allow DNSPs the flexibility to offer 'above standard' pre-connection consultation services to small customers on a fee for service basis. For example, while Ergon Energy may usually factor in any costs associated with preliminary designs and plans for small customer connections as part of connection application fees, there may be circumstances where a small customer may request additional or more detailed specification and design options. In these circumstances, we believe an Alternative Control Service classification is appropriate to apply. As noted in the 'Network Services' section, Ergon Energy is also seeking confirmation of the AER's expectations around who should fund any design work on the shared network in feasibility and concept scoping phases for large customer connections. In our view, these services should be classified as an Alternative Control Service, and form part of the charges applied to large customers under

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	**Service group (incl. description)**
					the 'Pre-connection services' grouping. Finally, we request the AER amend the third dot point to make it clearer that 'preparation of preliminary designs and planning reports for large customer connection' includes project scopes and estimates.
AER service group – connection services				Ergon Energy requests that a more generic description and definition be applied, so that there are no perverse outcomes if a particular function or cost is inadvertently omitted from the AER's classification table. Ergon Energy also believes it may be of benefit to incorporate broader NECF definitions and concepts into the service descriptions, so it is clear how connection services will be applied to different classes of customers (such as micro-embedded generators, real estate developers and residential and business customers). To assist customers and stakeholders, the AER should note that connection services do not include shared network augmentation to facilitate a connection as these services are included in the description of 'Network Services' above (designing the network and constructing the network).	
Small customer connections	Design, construction, commissioning and energisation of connection assets for small customers (Generally, small customers are those customers who connect under the Standard Asset Connection tariff class in the DNSP's pricing proposal.)	Standard control	Standard control	Support, subject to amendments for real estate developers	At this time, Ergon Energy supports the current Standard Control Service classification for small customer connections and does not believe these connections should be subject to Alternative Control Service arrangements. Please refer to our comments above regarding the classification of small customer connections. We note that there are no regulatory impediments preventing Standard Asset Customers (SACs) (other than

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
					subdivisions) from arranging the design and construct of connection assets and gifting these assets to Ergon Energy. However, there are operational issues and business processes to take into consideration. With respect to connection services provided to real estate developers, in Ergon Energy's view these services should be separately distinguished and classified from small customer connections and large customer connections in light of current jurisdictional arrangements and our current Capital Contributions Policy which require developers to fully fund the costs of making a connection between our network and the development. Please refer to our detailed comments in the 'Real estate developers' section above. Ergon Energy also seeks clarification from the AER on how embedded generation connections, in particular embedded generators greater than 30kVA but less than 1MW (i.e. not a micro-embedded generator and smaller than an EG as defined for pricing purposes), will be treated. For clarity, we believe embedded generation connections should be included in the descriptions, and NECF concepts and definitions should be incorporated in the table, where appropriate.

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
Large customer connections	Design and construction of connection assets for large customers. (Generally, large customers are those customers who connect under the Individually Calculated Customer (ICC), Connection Asset Customer (CAC) and Embedded Generator (EG) tariff classes as per the distributor's pricing proposal.)	Alternative control	Alternative control	Support, subject to clarifications	Ergon Energy believes that a large customer could be defined as a customer who is connecting or modifying a connection at a HV connection, and any customer that is connecting or modifying a connection under an ICC, CAC or EG tariff class. In effect, this would broaden the scope of the Alternative Control Service arrangements to include HV SACs. These customers should be subject to an Alternative Control Service classification for design and construction, but the operation and maintenance of the connection (post-energisation) would still be a Standard Control Service. Ergon Energy notes that changes may be made to tariff classes within the next period as part of the Network Tariff Strategy which could influence the specific customers that may be defined as an ICC, CAC or EG. Ergon Energy will keep the AER abreast of such changes to ensure the general intent of the type of customers intended to be subject to Alternative Control Service arrangements remain. We also have a number of concerns regarding the demarcation between Standard Control and Alternative Control Service associated with large customer connections, which we will cover in our Classification Proposal. For example, who should fund design and construction works related to the shared network where these costs can be directly attributable to a large

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
					customer connection application (refer to comments in the 'Network Services' section).
Commissioning and energisation of large customer connections	Connection and energisation of Large Customer Connection assets to allow conveyance of electricity. Inspection and testing of connection assets. Includes administration services involved in reconciling the financials of a connection project, processing and finalising network information and contracts in relation to a connection	Alternative control	Standard control	Support, subject to amendments	Ergon Energy notes that it is only the DNSP that can undertake commissioning and energisation of large customer connections. We support the proposed change in classification, and agree the costs associated with commissioning and energising a large customer connection can be (and should be) directly attributed to the large customer benefiting from the service. Ergon Energy also requests that the description be amended to make it clear that costs associated with any generation required to supply existing customers while equipment is de-energised to allow the testing and commissioning of specific large customers connection assets are incorporated into this service.
Removal of network constraint for embedded generator	Augmenting the network to remove a constraint faced by an embedded generator	Alternative control	Standard control	Support, subject to amendments	Ergon Energy considers that the description could be improved to clarify that it includes any necessary upstream works associated with the connection. That is, it should not just be the net benefit concept outlined in the AER's Connection Charge Guidelines. Ergon Energy also believes that measures will need to be put in place to ensure that embedded generators do not fund upstream shared network works that are already committed or incurred as part of

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
					the DNSPs network plans (i.e. already planned to be funded under Standard Control Network Services). Ergon Energy considers, DNSPs would need to develop high level principles on when costs would be payable. These principles could be approved by the AER as part of the connection policy (if NECF applies). As highlighted above, the AER could also consider an Alternative Control Service classification for augmenting and extending the shared network, where this is directly attributable to facilitating a large customer connection in line with the AER's proposed approach to Embedded Generators (EGs) Finally, the AER should also ensure that the description clearly indicates that this service applies to EGs only (as defined for pricing purposes by the DNSP). That is, it should not capture any embedded generators that we would otherwise classify as a SAC. These customers will still receive a 'user pays' signal as they will be subject to the cost-revenue-test under the capital contributions policy (or connection policy, if NECF is introduced).
Temporary connections	Customer requests a temporary connection (e.g. temporary builders supply, blood bank vans, school fetes etc.)	Alternative control	Alternative control	Support, subject to clarifications	Ergon Energy seeks clarification that temporary connection services are only intended to capture connections that are to be commissioned for a very short period of time (i.e. as indicated by the examples provided in the description). Ergon Energy does not support this

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
					service being applied to connections that have a short term asset life. That is, connections that have a permanent location but the customer's requirements are less than the usual asset life (e.g. a mine with a 10 year life). Ergon Energy does not believe that these types of connections should be treated any differently to other types of 'permanent' connections, albeit that the connection may be temporary in nature. Therefore, Ergon Energy suggests that 'short-term supplies' for temporary connections in permanent locations (other than those for temporary builders' supplies) be incorporated within the descriptions for small customer and large customer connections.
AER service group – post connection services					
Operate and maintain connection assets	Works to operate, maintain, repair and replace connection assets owned by or gifted to the DNSP to a technically acceptable standard. Excludes works initiated by a customer, which is not required for the efficient management of the network or for DNSP purposes (such as customer requests to provide or maintain connection assets to a higher standard)	Standard control	Standard control	Support	Nil comment.
Connection management services	Work initiated by a customer which is specific to a connection point. Includes:	Alternative control	Alternative control	Support, subject to amendments	Ergon Energy considers the description for 'Connection management services' could be improved through the use of some

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
	Supply abolishment. Move point of attachment. Re-arrange network assets – network assets are re-arranged at customer's request. Overhead service line replacement – customer requests the existing overhead service to be replaced e.g. as a result of a point of attachment relocation. No material change to load. Auditing services – auditing of connection assets after energisation to network. Protection and power quality assessment e.g. embedded generation connected to network. Customer requested works to allow customer or contractor to work close: • coverage of low voltage mains (tiger tails) – customer requests the line close to a construction site to be physically covered in order to provide safety to parties work in close proximity • Temporary disconnections and reconnection (including de-energisations and re-energisations) which may involve a line drop. e.g. community events.				more high level definitions and descriptions of services. Additionally, Ergon Energy requests that the AER move services which are not necessarily specific to a connection point to the 'Ancillary Network Services' grouping. For example, the re-arrangement of network assets is not usually specific to a connection point. Rather, it is requested by a specific customer or appropriate third party (e.g. Department of Main Roads). Tiger tails can also be placed on shared network assets, and not just those assets specific to a connection point. Finally, Ergon Energy suggests removing the following from the description: "A reserve feeder is negotiated with customers specifically requesting continuity of supply should the feeder providing normal supply to their connection experiencing interruption." This is because Ergon Energy considers this as a type of connection service above minimum requirements (which is already separately listed).

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
	Supply enhancement. e.g. upgrade from single phase to three phase. Provision of connection services above minimum requirements. Upgrade from overhead to underground service. A reserve feeder is negotiated with customers specifically requesting continuity of supply should the feeder providing normal supply to their connection experiencing interruption. Customer consultation or appointment (if requested on B2B service order). Rectification of illegal connections or damage to overhead or underground service cables. Customer request for ad-hoc reconnections/disconnections for regular but short periods of time, for example holiday homes. De-energisation: • Retailer requests de-energisation of the customer's premises (business or after hours) where the de-energisation can be performed (e.g. pole, pillar or meter isolation link) • Retailer requests de-energisation of the				

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
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	customer's premises – Main switch seal (business or after hours) Re-energisation: • Retailer requests re-energisation of the customer's premises where the customer has not paid their electricity account (business or after hours) • Retailer requests a re-energisation of the customer's premises following a main switch seal (business or after hours) Reading provided for an active site. Retailer requests a re-energisation of the customer's premises after a physical disconnection and premises requires a visual examination.				
Accreditation of alternative service providers and approval of their designs, works and materials	Accreditation of service providers that meet competency criteria. Approval of third party design, works and materials: • Review, Inspection and Auditing of design and works carried out by an alternative service provider prior to energisation. • Certification of non-approved	Alternative control	Standard control / Alternative control	Support	Nil comment.

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
	materials – approval of non-approved materials to be used on the network.				
AER service group – metering services					
Type 5 and 6 metering installation	Includes on site connection of a new meter at a customer's premises, and on site connection of an upgraded meter at a customer's premises where the customer initiates the upgrade. Excludes installation of replacement types 5 and 6 meters initiated by the DNSP.	Alternative control	Standard control	Support, subject to further consideration of pricing impacts on customers and removal of the initial installation of a meter. Please refer to the 'Metering Services' section above and comments provided in this section.	Ergon Energy considers that the initial installation of a meter should not be included in this service group. Rather, it should be included within the 'Type 5 and 6 metering provision, maintenance, reading and data services' group. This is because, for new connections, these costs are typically capitalised as part of the connection project. Therefore, for expenditure forecast purposes, it would be simpler to include these costs as part of the same grouping which contains the capital costs associated with the meter assets themselves. Additionally, if the only remaining service in this group relates to customer initiated meter upgrades, then Ergon Energy considers this could be incorporated within the 'Auxiliary Metering Services' group. Ergon Energy also notes the AER's comment that Energex does not provide Type 5 meters.[37] In actuality, neither Ergon Energy nor Energex provide Type 5 metering as there are currently jurisdictional restrictions in place in

[37] Footnote 78, page 30 of the Preliminary Positions Paper

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
					Queensland for Type 5 metering. However, Ergon Energy would prefer that the reference to Type 5 remain in the classification table, to allow the Alternative Control Service classification to continue in the event that these regulatory barriers are removed.
Type 5 and 6 metering provision, maintenance, reading and data services	Meter provision refers to meter selection, procurement, programming, testing and management of NMI standing data according to the rules. Meter maintenance covers scheduled maintenance, meter inspection, load control relay maintenance, removal of meter and meter tampering. Meter reading refers to quarterly or other regular reading of a meter. Metering data services include collection, processing, storage and delivery of metering data, remote or self-reading at difficult to access sites, provision of metering data from previous 2 years, ongoing provision of metering data. Meter Data Services provided as part of general obligations as a local network service provider in accordance with the rules.	Alternative control	Standard control	Support, subject to further consideration of pricing impacts on customers and inclusion of the initial installation of a meter. Please refer to the 'Metering Services' section above and comments provided in this section.	Ergon Energy notes that Table 4 of the AER's Preliminary Positions Paper makes reference to the capital cost associated with purchasing metering equipment. However, it is unclear from the description set out in Appendix B whether the capital cost of meters is intended to be included in this service group. Ergon Energy requests clarification from the AER in this regard. As noted above, Ergon Energy believes the initial installation of a meter should also be incorporated into this service group. Ergon Energy also requests guidance from the AER on how we would treat capex for meters that are installed to address demand management initiatives and network augmentation constraints (i.e. for DNSP purposes which are for the benefit of all customers connected to the shared network). Similarly, how capex should be treated for non-compliant metering asset replacement programs, Ergon Energy expects these costs will need to be incorporated into any metering asset base. As previously highlighted, Ergon Energy also incurs a range of costs associated

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
					with services provided as part of our general obligations as a Local Network Service Provider. These costs are incurred even if Ergon Energy is not the MP or RP under the NER. For example, Ergon Energy still needs to warehouse and maintain metering data for all installations, including where we are not the MP or RP. Further, some systems currently used by Ergon Energy are not exclusively dedicated to Type 5 and 6 data services. That is we use the same systems to collect and process metering data for network billing purposes (and for all meter types), as well as for providing meter data services in accordance with our obligations under the NER. This means there may be practical difficulties in isolating and quantifying separate costs associated with the administration and management of Type 5 and 6 metering installations for expenditure forecast purposes. Ergon Energy is currently examining this issue. Ergon Energy does not believe it is appropriate to recover such 'shared' costs from a specific sub-set of customers that pay Alternative Control Service metering charges. Therefore, the AER's classification must ensure such services are classified as a Standard Control Service within the 'Network Services' grouping.

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
					Finally, Ergon Energy suggests spelling out National Electricity Rules in the last point.
Type 7 metering services	Administration and management of type 7 metering installations in accordance with the Rules and jurisdictional requirements. Includes the processing and delivery of calculated metering data for unmetered loads, and the population and maintenance of load tables, inventory tables and on/off tables.	Standard control	Standard control	Support	It should be noted that a number of Ergon Energy's metering systems and resources support dual functions and purposes. Therefore, there may be practical difficulties in isolating and quantifying separate costs associated with the administration and management of Type 7 metering services from other types of metering installations. Ergon Energy is currently examining this issue. Ergon Energy also suggests spelling out National Electricity Rules.
Auxiliary metering services	Off-cycle meter read, including: • special meter reads • move in move out meter reads • check read – check the accuracy of the meter reading. Testing for type 5 and 6 meters – customer requested meter accuracy testing. Meter inspection and investigation – a request to conduct a site review of the state of the customer's metering installation without physically testing the metering equipment. Alterations and additions to	Alternative control	Alternative control / Standard control	Support, subject to amendments and clarifications	In general, auxiliary metering services should be services undertaken at the request of a customer or retailer. Ergon Energy believes that in circumstances where services within this grouping are undertaken to satisfy DNSP purposes or obligations, then these services should not be subject to a non-building block arrangement. Rather, they should form part of either our 'Network Services' (i.e. Standard Control Service) or part of the 'Type 5 and 6 metering provision, maintenance, reading and data services' grouping (i.e. Alternative Control Service). Ergon Energy requests the AER clarify that this is the intent of the proposed classifications. Ergon Energy also suggests changing the description of "Testing for type 5 and 6

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
	current metering equipment, includes: • meter alteration – meter is being relocated or meter wiring altered and requires DNSP to visit site to verify the integrity of the metering equipment • exchange meter – customer requests exchange of their current meter (e.g. for alternative metering configuration/consolidation of multiple meters for one meter), or customer requests exchange of their current meter for a solar photovoltaic meter. Provision of low voltage (LV) current transformers (CT) Type 5 to 7 non-standard metering data services. Replacement or removal of a type 5 or 6 meter instigated by a customer switching to a non-type 5 or 6 meter that is not covered by any other fee. Meter re-seal – where the customer has caused the meter to need re-sealing (e.g. by having electrical work done on site). Install additional metering. Reconfigure meter.				meters…" to "Testing for type 5 and 6 metering installations". This will provide us the ability to recover costs of meter testing, as well as the costs of LV CTs that also form part of the customer's metering installation. This would only be applicable to regulated customers. Additionally, "Type 5 to 7 non-standard metering data services" should be changed to "Type 5 to 7 non-standard metering services". This will allow for a broader cost recovery of additional metering services above minimum requirements (e.g. providing energy pulsing output for a customer, interface to building management system, and non-standard data services). We also seek clarification on the scope of the proposed meter inspection and investigation charge under the 'Auxiliary Metering Services' grouping and the metering inspection under the 'Type 5 and 6 metering provision, maintenance, reading and data service' grouping. Ergon Energy expects that: • Any meter inspection and investigation initiated by the customer would incur the auxiliary metering service fee • Any meter inspection forming part of the approved Meter Asset Management Plan activities would be covered by the Type 5 and 6 metering provision, maintenance,

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
	Meter Exit Fee – recovery of stranded assets costs associated with the removal of meter/s from customer's premises before the end of their useful life at the request of the customer (or customer's retailer) due to a change in Responsible Person /Meter Coordinator. Install load control. Remove local control relay or time clock.				reading and data services charge. Ergon Energy also notes that costs associated with load control should only apply to Alternative Control Services to the extent they relate to the actual meter. The provision of the load control equipment that is separate to the meter, and necessary for safe, secure and reliable operation of the network should be a 'Network Service', and therefore a Standard Control Service. Ergon Energy would also like to add an additional load control related service 'Change load control relay channel at retailer or customer request' (refer comments in the 'Proposed additional services' section above).
AER service group – ancillary network services				As highlighted previously, Ergon Energy believes DNSPs are in the best position to design and future proof the list of distribution services, as it applies to their network and service offerings. Ergon Energy is happy to work with the AER to make further refinements to the classification table. We will revise the table over the coming weeks and provide it to the AER.	
Services provided in relation to a Retailer of Last Resort (ROLR) event	Distributors may be required to perform a number of services as a distributor when a ROLR event occurs. These include: Preparing lists of affected sites, and reconciling data with AEMO listings; handling in-flight transfers; identifying open service orders raised by the failed retailer and determining actions to be	Alternative control	Not currently classified	Support, subject to amendments	Ergon Energy believes a detailed list of services creates limitations around what should be included in this service. We prefer a broader definition. Also, if the current list is maintained, Ergon Energy suggests spelling out the reference to AEMO (i.e. Australian Energy Market Operator).

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
	taken in relation to those service orders; arranging estimate reads for the date of the ROLR event and providing data for final network use of system (NUOS) bills in relation to affected customers; preparing final invoices for NUOS and miscellaneous charges for affected customers; preparing final debt statements; extracting customer data, providing it to the ROLR and handling subsequent enquiries; handling adjustments that arise from the use of estimate reads; assisting the retailer with the provision of network tariffs to be applied and the customer move in process; administration of any 'ROLR cost recovery scheme distributor payment determination'.				
Other recoverable works	Customer requests the provision of electricity network data including pole assess information. Specific request for the provision of zone substation data. Bundling of cables carried out at the request of another party. Provision of services, other than standard connection, for approved unmetered equipment, public telephones, traffic lights and public BBQs. Customer requested	Alternative control	Alternative control	Support, subject to amendments	Ergon Energy considers that the service group 'Other recoverable works' is unclear in terms of distinguishing between Alternative Control Services, Standard Control Services and unregulated services. For the benefit of customers, Ergon Energy considers the AER should make their expectations clear around the distinguishing factors which make a service Alternative Control (and subject to direct revenue and price control) as opposed to being unregulated. We appreciate the addition of the

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
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	appointments. Attendance at customer's premises to perform a statutory right where access is prevented. • Rearrangement of assets (other than connection assets). Conversion to aerial bundled cables. • Aerial markers. • Parallel generator applications. • Reserve feeder				'Customer requests the provision of electricity network data including pole assess information' and 'Specific request for the provision of zone substation data' services. However, we are unclear whether this is broad enough to cover our concerns raised in the 'Proposed additional services' section relating network data. Ergon Energy should be able to charge for a wasted truck visit where the retailer/customer cancels a service order and the truck has already left the depot (refer to the 'Proposed additional services' section above). Ergon Energy also requests the following services to be added to this service group: • Services not specific to a connection point currently listed under 'Post-connection services' (e.g. removal / relocation of assets at customer request) • Assessment of Parallel Generation Applications • Witness Testing • Provision of network data (not covered by other services).
AER service group – public lighting					
Provision, construction and maintenance of public lighting.	Application assessment, design, review and audit public lighting services Provision, construction and maintenance of new street lighting	Alternative control	Alternative control	Support, subject to amendments	Ergon Energy currently treats requests to remove / relocate street lights as a Quoted Service. That is, they are not treated differently to requests to remove / relocate other distribution assets. Ergon Energy

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
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	services Alteration, repair, relocation, rearrangement or removal of existing street light assets Provision of glare shields, vandal guards, luminaire replacement with aero screens A fee for the residual asset value of non-contributed public lights when removed from service before the end of their useful life at the request of the customer Operating street lighting assets including handling enquiries and complaints and dispatching crews to repair assets				does not support grouping this service with other street lighting services that are included in the street lighting building block and believes that a new service should be established.
Emerging or new public lighting technology.	New public lighting technologies, including trials. Energy efficient retrofit (including where customer requests to retrofit existing assets before end of life).	Alternative control	Not classified	Support	Ergon Energy appreciates the AER's inclusion of this new service in the table.
Unclassified distribution services				Ergon Energy notes that a number of these services are specific to Energex. Ergon Energy is happy to work with the AER to make further refinements to the classification table.	
Type 1 to 4 metering	Contestable metering services	Unclassified	Unclassified	Support	Nil comment.
Emergency recoverable works	Work to repair damage to the distribution network caused by an identifiable third party from whom	Unclassified	Alternative control	Do not support. Please refer to our comments above.	Ergon Energy notes that the description refers to "identifiable third party". The AER has not provided indication of how costs will be recovered if the responsible

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
	costs may be recovered				party is unknown. Due to difficulties in recovering costs, we also believe costs to repair damage caused by an identifiable party should remain a direct control service. Please refer to our comments above.
Watchman	Unmetered light mounted on customer's property or distribution pole for security purposes. Charge for fixed capital cost of installing light	Unclassified	Unclassified	Support	Nil comment.
Shared assets	Pole/duct rentals for non-electricity related purposes (e.g. telecommunications) and relocation of third party cables	Unclassified	Unclassified	Support	Ergon Energy seeks clarification from the AER that this grouping includes services related to the National Broadband Network. Ergon Energy also has a wholesale telecommunications arm and wholly-owned subsidiary, Nexium Telecommunications, which provides telecommunication services to third parties. This service should be classified as a non-distribution service that is unregulated in the section below.
Non-distribution services that are unregulated					
Rental and Hire Services	Rental of Energex owned property	Unregulated	Unregulated	Support, subject to amendments	Ergon Energy believes that the reference to 'Energex' should be removed and replaced with 'distributor-owned'.
Test, Inspect and Calibrate	Calibration and testing of equipment for external party products	Unregulated	Unregulated	Support	Nil comment.
Property	Undertaking conveyancing	Unregulated	Unregulated	Support, subject to	Ergon Energy believes this service should

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
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Searches	property searches			amendments	be expanded to include circumstances where customers approach Ergon Energy to conduct easement negotiations and /or purchase (where they are responsible for the works). As such, the service group should be renamed 'Property Services'.
Contracting Services to other NSPs	Services, such as specialist cable jointers, provided to other NSPs such as Ergon and Powerlink	Unregulated	Unregulated	Support, subject to amendments	Ergon Energy believes that the reference to 'Ergon' should be removed and 'NSPs' should be spelt out in full (i.e. network service providers).
Provision of training to external parties	Specialist post and pre-trade training provided by EsiTrain to external parties	Unregulated	Unregulated	Support, subject to amendments	EsiTrain is specific to Energex and should not be referenced in this table. We suggest replacing this term with 'distributors'.
Equipment Services	Safety testing of equipment such as: • insulating gloves • live line hot sticks and rubber products • insulating mats and covers • voltage and phasing detectors, operational sticks • harnesses, climbing kits, rescue kits • step/extension ladders, pole platforms	Unregulated	Unregulated	Support	Nil comment.
Sale of inventory, asset or scrap		Unregulated	Unregulated	Support, subject to clarification	Ergon Energy wishes to clarify that this service relates to unregulated assets that are not subject to AER regulation.

Service group	Further description (if any)	AER's proposed classification 2015–20	Current classification 2010–15	Ergon Energy response	
				Proposed classification	Service group (incl. description)
Operate and Maintain large customer connections	Contract to provide operate and maintain services for connection assets owned by customer	Unregulated	Unregulated	Support	Nil comment.

Averaging periods

Under the AER's Rate of Return Guideline (Guideline), Ergon Energy can propose the averaging periods for each year in the upcoming regulatory control period that will be used to estimate the prevailing rate of return on debt. This can be done during the Framework and Approach process or in our initial Regulatory Proposal.[38]

The averaging period should satisfy certain conditions set out in the Guideline:

- "It should be specified prior to the commencement of the regulatory control period
- At the time it is nominated, all dates in the averaging period must take place in the future
- It should be as close as practical to the commencement of each regulatory year in a regulatory control period
- An averaging period needs to be specified for each regulatory year within a regulatory control period
- The proposed averaging periods for different regulatory years are not required to be identical but should not overlap
- The nominal return on debt is to be updated annually using the agreed averaging period for the relevant regulatory year
- Each agreed averaging period is to be confidential".[39]

Our initial averaging period has been proposed in this submission (i.e. as part of the Framework and Approach process), and the remaining annual averaging periods will be proposed in our Regulatory Proposal.

Our proposed averaging periods take, or will take, into account the Guideline and:

- The time needed to incorporate the updated nominal return on debt in an our annual Pricing Proposals
- The current uncertainty regarding the future timing of the Pricing Proposal process[40]
- The short period of time between the Regulatory Proposal submission and the AER's Determination in April 2015.

[redacted]

[38] AER (2013), *Rate of Return Guideline*, December 2013, p22.
[39] AER (2013), *Rate of Return Guideline*, December 2013, pp21-22.
[40] Refer to *Distribution Network Pricing Arrangements* Rule change, which is available at http://www.aemc.gov.au/Electricity/Rule-changes/Open/distribution-network-pricing-arrangements.html.

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