



Submission to the AER on its Preliminary Determination Classification of services



Summary

This document sets out Ergon Energy's response to the Australian Energy Regulator (AER) on its Preliminary Determination – classification of services.

Ergon Energy accepts the AER's Preliminary Determination in relation to:

- The classification of separate type 5 or 6 metering services for:
 - Meter reading and maintenance
 - meter provision before 1 July 2015
 - meter provision after 1 July 2015.
- However, we have proposed some changes to the way in which the proposed new services are described and have updated our Regulatory Proposal to reflect this
- Clarifying that load control services provided by equipment external to a meter is classified as a Standard Control Service and load control services provided by equipment internal to a type 5 or 6 meter is classified as an Alternative Control Service.
- The undersea cable that connects Hayman Island to mainland Australia, remaining an unregulated asset, and have updated our Regulatory Proposal to reflect this.

Outcomes

In light of the above, Ergon Energy has revised our approach to 'Default Metering Services'. In particular, we have proposed capital and non-capital annual metering charges. We have also proposed new fee based services for Type 5 and 6 meter installation and provision (on or after 1 July 2015), where the new or upgraded meter is request as a result of a customer request.

In relation to the Hayman Island undersea cable, Ergon Energy has included this as an unregulated asset in its *(Revised) Classification Proposal*.

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1. Introduction

On 30 April 2015, the Australian Energy Regulator (AER) released its Preliminary Determination on Ergon Energy's Regulatory Proposal for the regulatory control period commencing on 1 July 2015 and ending on 30 June 2020.

This document details our response to the AER's Preliminary Determination and stakeholder comments on the classification of services. We have made revisions to our Regulatory Proposal and its supporting documents to reflect these positions, where necessary. Ergon Energy has structured this document in the following manner:

- Chapter 2 summarises the AER's Preliminary Determination in relation to the classification of services.
- Chapter 3 outlines issues raised by stakeholders since the lodgement of our initial Regulatory Proposal, both through our own consultation process and the AER's.
- Chapter 4 provides our response to the positions adopted by the AER, as well as stakeholder concerns.
- Chapter 5 sets out areas of our initial Regulatory Proposal which have been revised due to new or updated information, or changes in methodology.

2. AER's Preliminary Determination

Attachment 13 of the AER's Preliminary Determination details its positions on Ergon Energy's proposed classification of services. The following sections summarise these positions and the AER's rationale.

2.1. Exit fees

Ergon Energy's October Regulatory Proposal included a Customer Transfer Fee in the classification of services as an Auxiliary Metering Service. This fee was intended to recover stranded asset costs associated with the removal of a meter(s) from a customer's premises before the end of its useful life at the request of the customer (or customer's retailer) due to a change in the Responsible Person. This fee was also intended to recover the administrative costs associated with the removal of a meter.

The AER considers Ergon Energy's Customer Transfer fee would present a significant barrier to customers wishing to switch to an alternative metering provider and inhibit competition. Therefore, it decided to:

- recover the residual capital value through a separate Alternative Control Service
- not classify an exit fee service (i.e. Ergon Energy is not able to charge administrative costs).

2.2. Residual meter value

To allow the recovery of residual capital costs and operating costs, the AER's Preliminary Determination classified the following Alternative Control Services:

- Type 5 or 6 meter reading and maintenance – recovers operating costs incurred by Ergon Energy in operating a meter. This cost would be avoided if a customer switches to an alternative metering provider
- Type 5 or 6 meter provision (pre 1 July 2015) – recovers the cost of meters installed before 1 July 2015
- Type 5 or 6 meter provision (post 1 July 2015) – recovers the cost of meters installed on or after 1 July 2015.

2.3. Load control

The AER has amended some descriptions in the 'Network Services' and 'Auxiliary Metering Services' service groupings to reflect its intention that load control equipment outside of the meter is a Standard Control Service and load control provided by the meter itself is an Alternative Control Service.

2.4. Hayman Island

The AER has decided to retain an unregulated classification for the Hayman Island undersea cable. In reaching this conclusion, the AER considered the matters set out in clause 6.2.1(c) of the National Electricity Rules, as well as the customer's desire for the current connection agreement to continue and for the undersea cable to remain unregulated.

The AER noted commercial discussions between the parties are continuing. Therefore, the AER will reconsider its approach in the Substitute Determination.

3. Stakeholder comments

Since the submission of our Regulatory Proposal in October 2014, and the release of the AER's Preliminary Determination in April 2015, Ergon Energy has had ongoing Stakeholder discussions. This section provides further detail regarding these discussions.

3.1 Our consultation

Since the release of the AER's Preliminary Determination in April 2015, Ergon Energy has been in discussion with the Queensland Government regarding options for the implementation of the proposed capital and not capital metering charges. In particular Ergon Energy is seeking to ensure that the new charging regime can be implemented in a way that minimises customer impact.

Further, since submitting our October Regulatory Proposal, Ergon Energy has continued discussions with Hayman Island. Based on those discussions, the parties have agreed to treat the undersea cable as an unregulated asset for the regulatory control period 2015-20.

4. Ergon Energy's response

Ergon Energy generally accepts the AER's classification of services. We provide further details on our response below.

4.1 Exit fee

Ergon Energy retains the view that we presented in our October Regulatory Proposal and in subsequent submissions to the AER that an exit fee is the most equitable mechanism for recovering residual metering costs that arise when a meter is replaced by an upgraded meter. However, we have updated our Regulatory Proposal to reflect the AER's decision to apply upfront charges for new and replacement meters.

This is because Ergon Energy made a number of system and process changes to enable the introduction of these capital charges from 1 July 2015. We have also communicated these changes to relevant stakeholders. Unwinding these changes in 2016-17 would create unnecessary costs and confusion for customers. Further details are set out in our *Metering – Response document*.

4.2 Residual meter value

As noted above, Ergon Energy has updated our Regulatory Proposal to reflect the AER's decision to apply upfront charges for new and replacement meters and the approach to recovering the residual meter value. However, there are also a few inconsistencies in the classification of services which need to be addressed by the AER. Specifically:

- The AER has not removed the meter exit fee from Auxiliary Metering Services, despite its decision to not apply an exit fee.
- Type 5 and 6 data services have been included in two different services:
 - Type 5 and 6 meter installation and data services
 - Type 5 and 6 metering maintenance, reading and data services.

Ergon Energy considers the former service should be removed and the service description relating to data services should be included in the metering maintenance etc. service.

- The description of meter installation should be included in the Type 5 and 6 meter provision (after 1 July 2015) service description and the service should be renamed to include installation (i.e. 'Type 5 and 6 meter installation and provision (after 1 July 2015)').

Ergon Energy has updated its *02.01.01 Classification Proposal* to address these issues.

4.3 Load control

We accept the AER's clarification regarding load control services and note that it is consistent with our understanding of the classification of services set out in the Framework and Approach Paper.

4.4 Hayman Island

As noted above, Ergon Energy and Hayman Island have under taken further discussions since submission of our October Regulatory Proposal. As a result of those discussions the parties have agreed to treat the undersea cable as an unregulated asset for the regulatory control period 2015-20.

Ergon Energy therefore accepts the AER's decision to retain the unregulated classification of the Hayman Island undersea cable and has updated our Regulatory Proposal accordingly.

5. Updates to Ergon Energy's Regulatory Proposal

Ergon Energy has updated the October Regulatory Proposal and *02.01.01 – (Revised) Classification Proposal* to reflect these issues, along with some minor adjustments to ensure consistency with the AER's Preliminary Determination.

Supporting documents

The following documents support our response to the AER on the AER's Preliminary Determination – classification of services:

Name	Ref
<i>(Revised) Classification Proposal</i>	02.01.01

Definitions, acronyms, and abbreviations

AER	Australian Energy Regulator
Ergon Energy	Ergon Energy Corporation Limited