



FACT SHEET: Economic Regulation and Classification of Services for Major Customers

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Background

The Australian Energy Regulator (**AER**) regulates the revenues that Ergon Energy Corporation Limited (**Ergon Energy**) can earn, and the prices that Ergon Energy can charge, for certain services provided by means of, or in connection with its distribution system.

In order to regulate the prices that Ergon Energy can charge for its services, the AER has classified Ergon Energy's regulated distribution services into Standard Control Services (**SCS**) and Alternative Control Services (**ACS**).

In relation to the provision of:

- Standard Control Services (SCS) – Ergon Energy recovers these costs through network tariffs (or *network charges*) that are billed to retailers. Network charges are generally included in the electricity tariffs (or retail tariffs) that retailers levy on customers for their electricity usage; and
- Alternative Control Services (ACS) – Ergon Energy recovers these costs through ACS charges (or *distribution non-network charges*) that are calculated and levied separately on those who utilise the service.

In the case of large customer connections (referred to by Ergon Energy as Major Customers), the AER determined that this particular service should be classified as an Alternative Control Service – Quoted Service from 1 July 2010.

Where a Major Customer is seeking a new, or modified, connection to Ergon Energy's network, the Major Customer will enter into a construction contract with Ergon Energy for the carrying out of the relevant works. Note that in certain circumstances, certain works in respect of dedicated connection assets (that would be classified as ACS were Ergon Energy to carry out the works) may (subject to a risk assessment undertaken by Ergon Energy) be able to be carried out by the Major Customer (or the Major Customer's contractor).

Where the Major Customer carries out such works, it pays for these itself. If Ergon Energy carries out these works, the Major Customer will pay Ergon Energy for these works up front through ACS charges that are calculated using the AER-approved formulae discussed below.

Major Customers may also be required to pay additional ACS charges for any other types of ACS that may be provided by Ergon Energy in facilitating a large customer connection to the network. For example, additional Project Fees may be charged to assess a connection application, or incurred where Ergon Energy undertakes auditing of design and construction.

Glossary

ACS: Alternative Control Services: Services provided by Ergon Energy that are generally dedicated to a particular Major Customer.

AER: Australian Energy Regulator: The Australian Energy Regulator, a division of the ACCC.

Major Customer: In this Fact Sheet, refers to a person intending to submit an application to

connect to Ergon Energy (for either a new connection or modification of an existing connection) where the acceptance of that application and completion of necessary works will result in that customer being classified by Ergon Energy as any of an ICC (Individually Calculated Customer), CAC (Connection Asset Customer) or EG (Embedded Generator) in accordance with Ergon Energy's pricing proposal available on the [Network Tariff](#) section of Ergon Energy's [website](#).

SCS: Standard Control Services: Services provided by Ergon Energy that are generally shared amongst multiple customers.

Price Setting Process

The charges for Alternative Control Services can be directly attributed to the Major Customer requesting the service, and are regulated under a price cap control mechanism. This means that the AER determines Ergon Energy's efficient costs, and approves a maximum price that Ergon Energy can charge for the service.

For Fee Based and Quoted Services (varieties of ACS), a formula-based approach is used to determine the efficient costs (and price) of providing the service. The AER approves the maximum price Ergon Energy is permitted to charge through the annual pricing proposal process, by:

- approving the formulae Ergon Energy has used to develop prices for its Fee Based and Quoted Services. These formulas are published in the *Information Guide for Alternative Control Services Pricing: 1 July 2012 to 30 June 2013* (available on the [Network Tariff](#) section of Ergon Energy's [website](#)); and
- approving a schedule of rates Ergon Energy has used to calculate fixed prices for its Fee Based Services and indicative prices for its Quoted Services.

The schedule of rates used by Ergon Energy to calculate these prices is not published because this is commercially sensitive information. If publicly released, this information could adversely affect the contestable market in which Ergon Energy provides its services and may breach service agreements between Ergon Energy and its suppliers.

Having said this, Ergon Energy is able to provide its Major Customers with:

- a breakdown of the total amount for labour, materials, other costs and capital allowance (in accordance with the AER-approved formula components); and
- all reasonable information to describe the nature of costs that have been factored into the relevant quotation (for example description of materials and other costs expected to be incurred in delivering the service).

Further Information

Major Customers may contact their Project Sponsor to obtain further specific information.