

# Chapter 5: Controls on revenue and prices for Alternative Control Services

## Introduction

Alternative Control Services are also subject to direct controls on revenues and price. However, the AER has more flexibility in how it calculates and controls prices compared to Standard Control Services.

Many of these services are requested by, or relate to, a specific customer, and therefore the customer directly benefiting from the service is either charged a fixed fee or a quoted price for the service.

Other services relate to a particular asset or class of assets that can be distinguished from the meshed distribution network (metering and public lighting services).

## Customer benefits

The changes to the way we plan and operate our network, as well as the efficiencies and effectiveness we have been able to achieve as an organisation over recent years, will also deliver positive price outcomes across our Alternative Control Services.

In the public lighting area, we are delivering a real decrease in prices in 2015-16, and we're making it easier to transition to new energy efficient public lighting technologies.

Transparent, cost reflective prices for Alternative Control Services will also facilitate customer choice and control.

## 5. Alternative Control Services

### 5.1 Background

As noted previously, the Framework and Approach Paper classified the following services as Alternative Control Services:

- Pre-connection Services
- Connection Services
- Post Connection Services
- Metering Services
- Ancillary Network Services
- Public Lighting Services.

The Framework and Approach Paper sets out the form of control that would apply to each of these Alternative Control Services, as well as the formula that the AER proposes to use to give effect to the form of control.

This chapter sets out for each Alternative Control Service:

- the form of control to be applied
- how Ergon Energy proposes to give effect to the form of control
- how the control mechanism(s) will be applied under clause 6.8.2(c)(3) of the NER
- how compliance with the control mechanism will be demonstrated under clause 6.12.1(13) of the NER.

### 5.2 Form of control mechanism

Through the Framework and Approach process, the AER determined that it would apply a cap on the prices of individual services for all of our Alternative Control Services, which is consistent with the form of control applied in the current regulatory control period. The AER considers this approach is “more suitable than other control mechanisms for delivering cost reflective prices”.<sup>57</sup>

### 5.3 Basis of the control mechanism

The AER indicated in its Framework and Approach Paper that it will confirm the basis of the control mechanism for Alternative Control Services through the distribution determination process. There are two main approaches the AER can apply:

- a limited building block approach
- a formula-based approach, which will result in either a fixed fee or quoted price.

Ergon Energy has proposed the basis of the control mechanism which we consider should apply for each service in the following sections.

---

<sup>57</sup> AER (2014a), Ibid, p67.

## 5.4 Formula for Alternative Control Services

The AER's proposed formula to give effect to the price cap is set out below.

$$p_i^t = p_i^{t-1} (1 + \Delta CPI_t)(1 - X_i^t) + A_i^t$$

Where:

$p_i^{t-1}$  is the cap on the price of service i in year t-1

$p_i^t$  is the price of service i in year t

$\Delta CPI_t$  is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities from December in year t-2 to December in year t-1. For example, for the 2015-16 year, t-2 is December 2013 and t-1 is December 2014 and in the 2016-17 year, t-2 is December 2014 and t-1 is December 2015 and so on.

$X_i^t$  is the X-factor for service i in year t

$A_i^t$  is an adjustment factor for service i in year t. Likely to include, but not limited to adjustments for residual charges when customers choose to replace assets before the end of their economic life.

The AER also proposed a formula to determine the cost build-up of services that are priced on a 'quoted' basis.

$$Price = Labour + Contractor Services + Materials + Capital Allowance$$

Where:

Labour (including on costs and overheads) – consists of all labour costs directly incurred in the provision of the service which may include but is not limited to labour on costs, fleet on costs and overheads. The labour cost for each service is dependent on the skill level and experience of the employee/s, time of day/week in which the service is undertaken, travel time, number of hours, number of site visits and crew size required to perform the service.

Contractor services (including overheads) – reflects all costs associated with the use of external labour in the provision of the service, including overheads and any direct costs incurred as part of performing the service. The contracted services charge applies the rates under existing contractual arrangements. Direct costs incurred as part of performing the service, for example permits for road closures or footpath access, are passed on to the customer.

Materials (including overheads) – reflects the cost of materials directly incurred in the provision of the service, material storage and logistics on costs and overheads.

Capital allowance – represents a return on and return of capital for non-system assets (for example vehicles,<sup>58</sup> IT and tools) used in the provision of the service.

Ergon Energy also proposes to use this formula to establish initial prices (or base prices) for fixed fee services in the first year of the next regulatory control period.

---

<sup>58</sup> Ergon Energy has included depreciation in the fleet on-cost, which forms part of the labour cost component.

Ergon Energy has assumed the price caps will operate in the following way for our fixed fee services, Public Lighting Services and Default Metering Services:

- the initial price (or base price) will be set for each service in the first year of the regulatory control period
- from year two onwards of the regulatory control period, services will be subject to the price caps using the controls provided in the price cap formula above
- the price cap formula allows prices to be annually adjusted for:
  - inflation (CPI)
  - real cost escalation (X-factor)
  - other adjustments allowed to be passed through in capped prices (Adjustment factor).

The result of the above essentially limits the annual movement in prices to an annual adjustment or escalation. This is primarily driven by changes in CPI and other changes to underlying cost drivers for different services (X-factor).

Further details on the calculation of input prices and the application of the formula are provided in the relevant sections below and in our supporting documents *04.01.00 – Compliance with Control Mechanisms* and *05.05.01 – Inputs and Assumptions for Alternative Control Services*.

## 5.5 Default Metering Services

### 5.5.1 Overview

For the first time, Ergon Energy will have separate charges for the installation, provision, maintenance, reading and data services of basic electricity meters for small to medium business and residential customers (what we call ‘Default Metering Services’). These are the meters that measure the electricity that goes into a property, and which allow electricity retailers to bill their customers. The AER has decided to separately classify this service and separately control the prices customers pay for this service.

We understand the AER’s decision to separate out Default Metering Services reflects its longer-term view of enabling metering services to be opened up to competition.

Charges to customers receiving Default Metering Services will be in the form of a daily fixed charge. The charge will be bundled with other distribution charges to the retailer as part of the usual billing process. The daily charges we are proposing for Default Metering Services in the next regulatory control period are outlined in Table 23.

**Table 23: Daily metering charge, by service, 2015-20**

Default Metering Services	2015-16	2016-17	2017-18	2018-19	2019-20
<b>\$/day (nominal)</b>					
Primary Service	0.23	0.23	0.22	0.22	0.22
Controlled load	0.09	0.08	0.08	0.08	0.08
Solar	0.06	0.06	0.06	0.05	0.05

Our approach to the calculation of these charges is outlined in the sections below. In summary:

- the costs of our Default Metering Services relate to activities grouped by the AER in its Framework and Approach Paper
- the AER has determined that the form of control will be a cap on the price of each service per annum. However, where possible, we have adopted an approach to expenditure forecasting and revenue calculation that is consistent with our approach for Standard Control Services. This includes:
  - adaptation of the same models for the calculation of the revenue requirement (i.e. PTRM and RFM)
  - use of the same key input parameters for the revenue calculation including the rate of return, tax and CPI
  - consistency in the approach to forecasting operating expenditure (base step trend (BST)) and application of overhead allocation in accordance with the Cost Allocation Method (CAM)
  - forecasting techniques for growth and replacement in meter assets that are consistent with Standard Control Service Asset Renewal and Customer Connection Initiated Capital Works
- creating an opening asset value based on the gross replacement costs of a modern equivalent asset that has been optimised for a particular purpose and adjusted for depreciation
- applying depreciation of a newly installed meter to reflect the economic life of a meter in a competitive environment (three years) while accelerating the depreciation of sunk default metering assets to five years
- a 34% increase in meter installations and replacements over the next regulatory control period, driven by a significant increase in the volume of planned meter replacements
- prices established based on the required revenue each year, the cost allocation weighting between primary, controlled load and solar metering services, and the forecast number of services each year.

### 5.5.2 Our Default Metering Services Summary document

This section of the Regulatory Proposal provides a brief outline of the approach we have taken with Default Metering Services. Our supporting document *05.03.01 – Default Metering Services Summary* provides important details around our approach to the calculation of required revenues and expected prices for our Default Metering Services. This includes:

- our regulatory framework
- capital expenditure requirements
- operating expenditure requirements
- calculation of required revenues
- calculation of meter tariffs and prices.

Additional materials supporting the above inputs and methodologies are also referenced in the summary document.

### 5.5.3 Nature of the services

Default Metering Services are only a small part of activities that are covered by the metering services banner. In the AER's Framework and Approach Paper, metering services were grouped and classified in the following way:

- Types 1 to 4 metering services – these meters record detailed energy usage and have a number of other capabilities, the most significant being remote communications facilities. These meters are mostly provided for larger users in a competitive market and are therefore not regulated by the AER.
- Type 5 and 6 metering installation, provision, maintenance, reading and data services (Default Metering Services) – Type 5 meters record energy data in 30 minute intervals and are manually read (typically every three months). A Type 6 meter is a 'general purpose' meter that records accumulated energy consumption and is also manually read. Ergon Energy is the only provider of Type 5 and 6 metering services in our network area.<sup>59</sup> Our service provision is regulated by Queensland-specific requirements contained in the AEMO's Metrology Procedure.<sup>60</sup> These requirements and obligations differ to those in other jurisdictions and our costs will reflect these differences. Default Metering Services are classified as an Alternative Control Service.
- Type 7 metering services – Type 7 services apply where the Australian Energy Market Operator (AEMO) has decided that a metering installation does not require a meter. Examples of such instances include street, traffic, park and community lighting meters. These services are classified as Standard Control Services.
- Auxiliary Metering Services – these are non-routine metering services which Ergon Energy provides on request, such as Special Meter Reads. These services are classified as Alternative Control Services and are covered in Section 5.7 of this Regulatory Proposal.

In addition to the above services, there are also some metering related services associated with the provision of network services to our customers (e.g. services related to load control and meter data management). The costs associated with this activity forms part of our Standard Control Service expenditure forecasts (refer to Appendix A and Appendix B).

Our supporting document *02.01.01 – Classification Proposal* provides more detail on how different types of activities are grouped and classified in order to regulate the prices we can charge customers for our services.

This section of our Regulatory Proposal concentrates on prices for Default Metering Services.

### 5.5.4 Application of the control mechanism

Our supporting document *04.01.00 – Compliance with Control Mechanisms* notes that, to derive prices for Default Metering Services, Ergon Energy will calculate a revenue allowance using a 'limited building block' approach consistent with Part C of Chapter 6 of the NER as well as calculations set out in the AER's PTRM. Where appropriate we have also sought to apply similar approaches to forecasting, such as the use of BST modelling for operating expenditure forecasts.

---

<sup>59</sup> It should be noted that due to jurisdictional restrictions presently in place in Queensland, Ergon Energy does not currently provide Type 5 meters.

<sup>60</sup> AEMO (2012), *Metrology Procedure: Part A National Electricity Market*, July 2012.

The limited building block approach is used to determine allowable revenues, which is then converted into unit charges that are subject to a price cap. Ergon Energy's proposed annual Default Metering Service charges have been set based on the required revenue each year, the cost allocation weighting between primary, controlled load and solar metering services, and the forecast number of services each year.

### 5.5.5 Building blocks for Default Metering Services

Table 24 sets out the proposed ARR for Default Metering Services for the next regulatory control period 2015-20.

**Table 24: Annual Revenue Requirement for Default Metering Services, 2015-20**

\$m (nominal)	2015-16	2016-17	2017-18	2018-19	2019-20
Return on capital	4.94	6.14	6.78	6.75	5.85
Return of capital	11.05	19.88	29.78	40.68	42.55
Operating expenditure	32.80	34.39	36.92	38.98	40.60
Corporate income tax	3.11	5.56	8.22	11.04	11.12
<b>Proposed Annual Revenue Requirement</b>	<b>51.90</b>	<b>65.96</b>	<b>81.69</b>	<b>97.45</b>	<b>100.13</b>

The proposed ARR for Default Metering Services was calculated using the PTRM, which has been provided in our supporting document *05.04.07 – Default Metering Services PTRM*.

#### Key assumptions

The proposed ARR for Default Metering Services was based on the key inputs and assumptions, and forecasts set out in Table 25.

**Table 25: Ergon Energy's forecast Regulatory Asset Base for Default Metering Services, 2015-20**

	2015-16	2016-17	2017-18	2018-19	2019-20
Meters installed					
Meters (number)	1,279,922	1,312,782	1,345,294	1,377,737	1,409,967
Asset Base (\$m, nominal)					
Opening RAB	61.60	76.53	84.57	84.24	73.03
Capital expenditure (net of disposals and capital contributions)	25.99	27.92	29.45	29.46	30.13
Regulatory depreciation	(11.05)	(19.88)	(29.78)	(40.68)	(42.55)
<b>Closing RAB</b>	<b>76.53</b>	<b>84.57</b>	<b>84.24</b>	<b>73.03</b>	<b>60.60</b>

## 5.5.6 Pricing for Default Metering Services

Ergon Energy has developed the following types of Default Metering Services charges to recover the ARR from customers:

- an annual metering service charge for the primary metering service
- a supplementary charge for *each* secondary controlled load
- a supplementary charge for solar
- a Customer Transfer (exit) fee for customers choosing another provider if competition is introduced for Type 5 and 6 metering services.

### Indicative prices

Table 26 sets out the indicative prices for our Default Metering Services for each year of the next regulatory control period, as required under clause 6.8.2(c)(4) of the NER. These are expressed as simplified unit charges (\$ per unit).

**Table 26: Annual indicative prices for Default Metering Services, by service, 2015-20**

Default Metering Services	2015-16	2016-17	2017-18	2018-19	2019-20
<b>\$/unit (nominal)</b>					
Primary Service	85.31	83.56	81.87	80.23	78.66
Controlled load	31.37	30.72	30.10	29.50	28.92
Solar	21.21	20.78	20.36	19.95	19.56
Customer Transfer fee	136.97	155.78	165.71	164.00	149.13

## 5.6 Public Lighting Services

### 5.6.1 Overview

Ergon Energy manages an asset base of more than 155,000 public lights<sup>61</sup> that illuminate roads managed by a local government authority, or the Queensland Government's Department of Transport and Main Roads. These lights may be:

- owned and operated by Ergon Energy (EO&O)
- gifted to Ergon Energy and thereafter maintained and operated by us (G&EO)
- customer owned and operated by someone other than Ergon Energy.

Charges to customers receiving Public Lighting Services will be in the form of a daily fixed charge. The daily charges we are proposing for Public Lighting Services in the next regulatory control period are outlined in Table 27.

---

<sup>61</sup> 'Street light' and 'public light' are used interchangeably in this Regulatory Proposal.

**Table 27: Daily public lighting charge, 2015-20**

Public Lighting Services \$/light (nominal)	2015-16	2016-17	2017-18	2018-19	2019-20
EO&O - Major	1.1355	1.1715	1.2086	1.2469	1.2864
EO&O - Minor	0.6768	0.6982	0.7203	0.7431	0.7666
G&EO - Major	0.4604	0.4750	0.4900	0.5055	0.5215
G&EO - Minor	0.3017	0.3113	0.3212	0.3314	0.3419

Our approach to the calculation of these charges is outlined in the sections below. In summary:

- the costs of our Public Lighting Services relate to activities grouped by the AER in its Framework and Approach Paper
- the AER has determined that the form of control will be a cap on the price of each individual service. However, where possible, we have adopted an approach to expenditure forecasting and revenue calculation that is consistent with our approach for Standard Control Services. This includes:
  - adaptation of the same models for the calculation of the revenue requirement (i.e. PTRM and RFM)
  - use of the same key input parameters for the revenue calculation including the rate of return, tax and CPI
  - consistency in the approach to forecasting operating expenditure (BST) and application of overhead allocation in accordance with the CAM
- prices established based on the required revenue each year, the type of public light (Major or Minor) and ownership basis.

### 5.6.2 Our Public Lighting Services Summary document

This section of the Regulatory Proposal provides a brief outline of the approach we have taken with Public Lighting Services. Our supporting document *05.01.01 – Public Lighting Services Summary* provides important details around our approach to the calculation of required revenues and expected prices for our Public Lighting Services. This includes:

- our regulatory framework
- capital expenditure requirements
- operating expenditure requirements
- calculation of required revenues
- calculation of proposed public lighting prices.

Additional materials supporting the above inputs and methodologies are also referenced in the summary document.

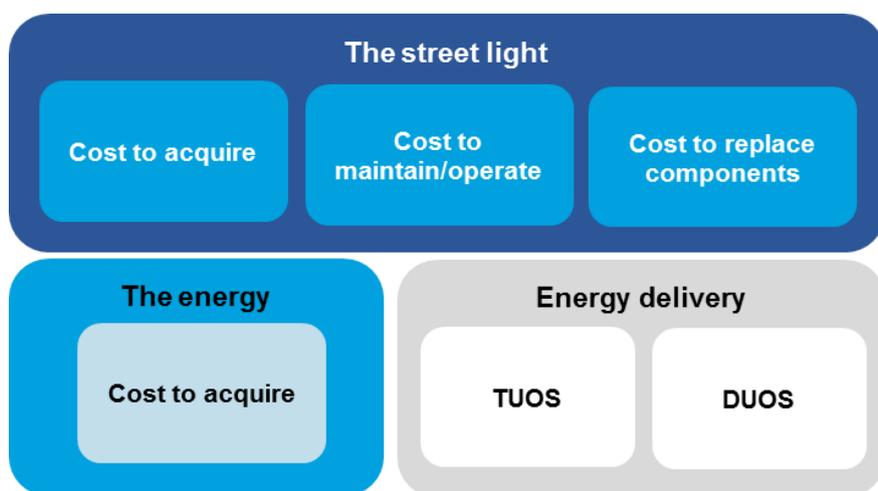
### 5.6.3 Nature of the services

If a public light is owned by Ergon Energy, the efficient costs of owning and maintaining the asset are charged to customers as a public lighting charge. Public Lighting Services include:

- the provision, construction and maintenance of public lighting assets
- emerging public lighting technology.

There are various cost components in supplying energy to a light, as summarised in Figure 6.

Figure 6: Cost components of public lighting



**The street light** is the equipment that directly provides the public lighting service. It includes a luminaire, lamp and a photoelectric cell or control device.

**The energy** is the electricity that powers the street light. Energy costs relate to the retailer.

**Energy delivery** consists of the services that convey electricity from the source of generation to the street light – that is, the TUOS and DUOS charges.

This section of the Regulatory Proposal focuses on the **street light** aspect only. The costs associated with this aspect are recovered as Alternative Control Service charges.

Our proposal on public lighting charges comes at a time of transition for the users of our public lighting services. Until 1 July 2014 all public lighting Alternative Control Service charges<sup>62</sup> have been borne by the Queensland Government as part of the Community Service Obligation. From that date, 10% of the current Alternative Control Service charge is being borne by customers. The Queensland Government has announced its intention that all costs will be recovered from customers in future – giving consideration to customer needs. The timetable for this is not known.

In response we have undertaken significant engagement on this area of our service over the last 12 months, resulting in our identification of three clear imperatives for delivery to customers:

- the ongoing importance of public lighting to the safety of the public as motorists and pedestrians
- the completion of the state-wide audit and the associated development of the LightMap software will provide Ergon Energy and our public lighting customers with a system framework for efficiently managing public lighting assets

<sup>62</sup> With the exception of removal/relocation of Ergon Energy owned public lighting assets.

- recognition and evaluation of the capacity for light emitting diode (LED) based technology to reduce public lighting costs in a number of ways. LED technology has improved rapidly over the past five years to the point it is starting to be used in mass deployment programs. In the local context, a number of technical, regulatory and financial barriers need to be worked through.

#### 5.6.4 Application of the control mechanism

Our supporting document *04.01.00 – Compliance with Control Mechanisms* notes that Ergon Energy will calculate a revenue allowance using approaches consistent with Part C of Chapter 6 of the NER as well as calculations set out in the AER’s PTRM. Where appropriate we have also sought to apply similar approaches to forecasting, such as the use of BST modelling for operating expenditure forecasts.

The limited building block approach is used to determine allowable revenues, which is then converted into unit charges that are subject to a price cap.

#### 5.6.5 Building blocks for Public Lighting Services

Table 28 sets out the proposed ARR for Public Lighting Services for the next regulatory control period 2015-20.

**Table 28: Annual Revenue Requirement for Public Lighting Services, 2015-20**

\$m (nominal)	2015-16	2016-17	2017-18	2018-19	2019-20
Return on capital	6.27	6.29	6.27	6.20	6.12
Return of capital	10.29	11.11	11.99	12.92	13.91
Operating expenditure	10.47	10.94	11.71	12.33	12.85
Corporate income tax	5.84	5.85	5.97	6.00	5.96
<b>Proposed Annual Revenue Requirement</b>	<b>32.88</b>	<b>34.19</b>	<b>35.94</b>	<b>37.46</b>	<b>38.84</b>

The proposed ARR for Public Lighting Services was calculated using the PTRM, which has been provided in our supporting document *05.02.03 – Public Lighting Services PTRM*.

#### Key assumptions

The proposed ARR for Public Lighting Services was based on the key assumptions and forecast set out in Table 29.

**Table 29: Assumptions supporting the revenue calculations for Public Lighting Services, 2015-20**

	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Connections</b>					
<i>Public Lighting (number)</i>					
Ergon Energy owned & operated	89,878	90,560	91,242	91,925	92,607
Gifted & Ergon Energy operated	54,237	55,887	57,537	59,187	60,837
Growth (% per annum)	1.6%	1.6%	1.6%	1.6%	1.5%
<b>Asset Base (\$m, nominal)</b>					
Opening RAB	78.25	78.41	78.20	77.36	76.39
Capital expenditure (net of disposals and capital contributions)	10.45	10.90	11.15	11.95	13.02
Regulatory depreciation	(10.29)	(11.11)	(11.99)	(12.92)	(13.91)
<b>Closing RAB</b>	<b>78.41</b>	<b>78.20</b>	<b>77.36</b>	<b>76.39</b>	<b>75.50</b>

## LED Transition

Public lighting customers are increasingly requesting the introduction of more efficient lighting technologies, particularly LED technology. Ergon Energy considers that, based on international evidence and our own involvement in LED trials, the future technology for public lighting is almost certainly going to be LED. To enable a transitional pathway to this future for our customers, Ergon Energy proposes the following approach:

- progressing regulatory, technical and customer engagement to allow LED to be introduced for new public lighting installations
- specific provision for the conversion of targeted existing public lighting to LED technology with the sunk cost of assets replaced spread across all public lighting customers through the daily charge
- flexibility for customers to adopt LED technology above and beyond the funded LED conversion program.

### 5.6.6 Pricing for Public Lighting Services

For the current regulatory control period, the AER approved a standard price for both lights owned by Ergon Energy and those gifted to Ergon Energy by or on behalf of customers. The only pricing distinction made during the current regulatory control period was between major and minor public lights.

With customers now bearing a portion of the Alternative Control Service charge and the intention that they will bear all of the cost, Ergon Energy recognises the obligation to propose different prices where there is a material variation in the cost.

For the next regulatory control period, Ergon Energy proposes a price structure as follows:

- EO&O
  - Major
  - Minor
- G&EO
  - Major
  - Minor.

### Exit fee

In support of the LED transition program, Ergon Energy proposes to establish an exit fee payable when public lights are scrapped before the end of their useful operational life.

If public lights are transitioned under the LED transition program the exit fee will be funded through the allowance made in the revenue requirement. If a public lighting customer seeks to convert a large number of public lights outside of the LED transition program, the customer will be required to pay the exit fee.

The proposed fees, for the whole regulatory control period, are set out in Table 30.

**Table 30: Exit fees, 2015-20 (\$ nominal)**

Public lighting category	Exit fee (per light)
EO&O - Major	\$1,390
EO&O - Minor	\$840
G&EO - Major	\$230
G&EO - Minor	\$195

Note: an exit fee is proposed for G&EO lights because Ergon Energy incurs refurbishment capital expenditure in respect of these assets.

## 5.7 Other Alternative Control Services

### 5.7.1 Nature of the services

Table 31 sets out the other services which we are proposing should be classified as Alternative Control Services in the regulatory control period 2015-20 and the specific services within each grouping.<sup>63</sup>

**Table 31: Other Alternative Control Services, 2015-20**

Service grouping	Services	Service description
Pre-connection Services	Connection application services	Services associated with assessing a connection application, making a connection offer and negotiating offer acceptance
	Pre-connection consultation services	Additional support services provided by Ergon Energy (on request) during connection enquiry and connection application (other than General Connection Enquiry Services and Connection Application Services). They generally relate to services which require a customised or site-specific response and/or are available contestably
Connection Services	Major customer connections	Design and construction of connection assets for major customers
	Commissioning and energisation of major customer connections	Commissioning and energisation of major customer connection assets to allow conveyance of electricity, and the inspection and testing of connection assets
	Real estate development connection	Design, construction, commissioning and energisation of connection assets for real estate developments
	Removal of network constraint for embedded generator	Augmenting the network to remove a constraint faced by an embedded generator
	Temporary connections	Relates to situations where a customer requests a temporary connection for short term supply (e.g. blood bank vans, school fetes etc.)
Post Connection Services	Connection management services (post connection)	Work initiated by a customer which is specific to a connection point
	Accreditation of alternative service providers and approval of their designs, works and materials	As per service
Metering Services	Auxiliary Metering Services	Non-routine metering services such as additions and alterations, special meter reads, meter reconfiguring, meter inspection and investigation, and other non-standard metering services
Ancillary Network Services	Services provided in relation to a Retailer of Last Resort (ROLR) event	As per service
	Other recoverable works	Works initiated by a customer that are not covered by another service and are not required for the efficient management of

<sup>63</sup> For further information on the individual services refer to 02.01.01 – Classification Proposal.

Service grouping	Services	Service description
		the network, or to satisfy distributor purposes or obligations
Public Lighting Services	Provision, construction and maintenance of public lighting	Removal/rearrangement of public lighting assets.

### 5.7.2 Application of the control mechanism

The AER has proposed to set prices based on the estimated cost of providing each service.

For some services, prices will be determined on a quoted basis. This means the prices are based on several types and quantities of inputs which vary depending on the service requested. Prices for other services will be charged on a fixed fee basis.

The first step in determining prices is to identify which services will be priced on a quoted basis versus a fixed fee basis. Table 32 provides a summary of our proposed pricing approach for each service grouping.

**Table 32: Proposed approach to pricing of other Alternative Control Services, 2015-20**

Service grouping	Services	Pricing approach
Pre-connection Services	Connection application services	Fixed / Quoted
	Pre-connection consultation services	Quoted
Connection Services	Large customer connections	Quoted
	Commissioning and energisation of large customer connections	Quoted
	Real estate development connection	Quoted
	Removal of network constraint for embedded generator	Quoted
	Temporary connections	Fixed
Post Connection Services	Connection management services (post connection)	Fixed / Quoted
	Accreditation of alternative service providers and approval of their designs, works and materials	Fixed / Quoted
Metering Services	Auxiliary Metering Services	Quoted
Ancillary Network Services	Services provided in relation to a ROLR event	Quoted
	Other recoverable works	Fixed / Quoted

Once this distinction is made, the prices for each service will be calculated in accordance with the AER's proposed formulas (see Section 5.4). Actual prices for services subject to a fixed fee and example prices for quoted price services will be provided in our annual Pricing Proposal.

### 5.7.3 Fixed fee services

There are a number of one-off services which Ergon Energy undertakes at the request of identifiable customer or retailer which are relatively standard in nature (e.g. de-energisations and re-energisations). This means the costs of providing the service can be assessed in advance of the service being requested.

Ergon Energy proposes to adopt an approach consistent with the current regulatory control period in determining prices for fixed fee services. We will charge for:

- the cost of labour by applying labour rates previously approved by the AER in 2014-15 (escalated annually). The cost of labour includes fleet on-costs and labour on-costs, which comprise the costs associated with payroll tax, superannuation, annual leave entitlements, sick leave entitlements, statutory holidays (special leave) and worker's compensation. The labour on-cost rates will be calculated annually. Overheads will also be calculated annually in accordance with Ergon Energy's CAM
- the capital costs associated with fleet<sup>64</sup> and other non-system assets, by calculating an amount in accordance with the value of these assets used in the provision of fixed fee and quoted price services
- the Goods and Services Tax (GST) in accordance with relevant legislation.

Further information on our approach to determining prices for fixed fee services is provided in our supporting document *05.05.01 – Inputs and assumptions for Alternative Control Services*.

Table 33 sets out the indicative prices for our fixed fee services for each year of the next regulatory control period, as required by clause 6.8.2(c)(4) of the NER.

**Table 33: Indicative prices for fixed fee services, by service 2015-20**

Pricing category \$/unit (nominal)	2015-16	2016-17	2017-18	2018-19	2019-20
Application fee - Basic or standard connection	936.78	984.50	1060.81	1124.80	1176.38
Application fee - Basic or standard connection - Micro-embedded generators	52.86	55.54	59.85	63.46	66.37
Application fee - Basic or standard connection - Micro-embedded generators - Technical assessment required	231.51	243.30	262.14	278.00	290.74
Application fee - Real estate development connection	980.15	1030.09	1109.93	1176.89	1230.85
Protection and Power Quality assessment prior to connection	1429.21	1502.05	1618.33	1716.36	1794.96
Temporary connection, not in permanent position - single phase metered - urban/short rural feeders	607.18	637.66	686.58	727.62	760.37
Temporary connection, not in permanent position - single phase metered - long rural/isolated feeders	971.49	1020.26	1098.53	1164.20	1216.60
Temporary connection, not in permanent position - multi phase metered - urban/short rural feeders	607.18	637.66	686.58	727.62	760.37

<sup>64</sup> Excluding depreciation, which is included in the fleet on-cost.

Pricing category \$/unit (nominal)	2015-16	2016-17	2017-18	2018-19	2019-20
Temporary connection, not in permanent position - multi phase metered - long rural/isolated feeders	971.49	1020.26	1098.53	1164.20	1216.60
Supply abolishment during business hours - urban/short rural feeders	364.31	382.60	411.95	436.57	456.22
Supply abolishment during business hours - long rural/isolated feeders	728.62	765.20	823.90	873.15	912.45
De-energisation during business hours - urban/short rural feeders	101.76	106.78	114.89	121.66	127.05
De-energisation during business hours - long rural/isolated feeders	607.18	637.66	686.58	727.62	760.37
Re-energisation during business hours - urban/short rural feeders	80.91	84.91	91.36	96.74	101.02
Re-energisation during business hours - long rural/isolated feeders	565.89	594.30	639.90	678.15	708.67
Re-energisation during business hours - after de-energisation for debt - urban/short rural feeders	80.91	84.91	91.36	96.74	101.02
Re-energisation during business hours - after de-energisation for debt - long rural/isolated feeders	565.89	594.30	639.90	678.15	708.67
Accreditation of alternative service providers - real estate developments	937.92	985.72	1062.03	1126.36	1177.94
Prevented access - one person crew - urban/short rural feeders	56.75	59.55	64.06	67.83	70.82
Prevented access - one person crew - long rural/isolated feeders	227.01	238.19	256.23	271.32	283.29
Prevented access - two person crew - urban/short rural feeders	116.89	122.75	132.17	140.06	146.36
Prevented access - two person crew - long rural/isolated feeders	467.56	491.02	528.67	560.25	585.45

It should be noted that the Queensland Government has set maximum price caps to apply to a subset of our Alternative Control Services through Schedule 8 of the *Electricity Regulation 2006 (Qld)*. Since the price caps are imposed through legislation, they take precedence over prices approved by the AER. Our annual *Price List for Alternative Control Services* will set out the services impacted by Schedule 8 and the respective capped prices.

#### 5.7.4 Quoted price services

Quoted price services encompass those services Ergon Energy undertakes at the request of identifiable customer or retailer that vary in the nature and scope of work, depending on the requestor's needs.

Ergon Energy proposes to adopt an approach consistent with the current regulatory control period in determining prices for quoted price services. We will charge for:

- the cost of labour by applying labour rates approved by the AER in 2014-15 (escalated annually). The cost of labour includes fleet on-costs and labour on-costs, which comprise the costs associated with payroll tax, superannuation, annual leave entitlements, sick leave entitlements, statutory holidays (special leave) and worker's compensation. The labour on-cost rates will be updated annually. Overheads will also be calculated annually in accordance with Ergon Energy's CAM
- contractor services at the cost they arise in the provision of each individual quoted service. Overheads will be calculated annually in accordance with the CAM
- the costs of materials by applying Ergon Energy's models based on the materials used in the provision of each individual quoted price service. These costs are obtained from a combination of our supply system, period contract rates (where available), suppliers and other third party organisations. For materials held in stock, a materials on-cost will also be applied. This rate will be calculated annually. Overheads will also be calculated annually in accordance with the CAM
- the capital costs associated with fleet<sup>65</sup> and other non-system assets, by calculating an amount in accordance with the value of these assets used in the provision of fixed fee and quoted price services. For the design and construction of connection assets for major customers, Ergon Energy is proposing to apply an additional margin to the general capital allowance rate, to promote greater competition in the provision of this service
- GST.

Further information on our approach to determining indicative prices for quoted price services is provided in our supporting document *05.05.01 – Inputs and assumptions for Alternative Control Services*.

Given the nature of quoted price services, it is not possible to provide examples of typical or representative services. This is because the actual prices for these services will be determined at the time of the customer's enquiry and will reflect the actual requirements of the service.

However, in order to demonstrate the application of the control mechanism, Ergon Energy has provided a worked example of the calculation of charges for one of our quoted price services. This worked example, including indicative prices for other quoted price services, are provided in our supporting document *05.05.01 – Inputs and assumptions for Alternative Control Services*.

As noted above, maximum price caps may apply to some of these services as a result of Schedule 8 of the *Electricity Regulation 2006 (Qld)*. Our annual *Price List for Alternative Control Services* will set out the services impacted by Schedule 8 and the respective capped prices.

## 5.8 Assigning customers to tariff classes

Ergon Energy proposes to continue our current procedures for assigning or reassigning customers to tariff classes, as set out in our *Information Guide for Alternative Control Services Pricing*.<sup>66</sup>

---

<sup>65</sup> Excluding depreciation, which is included in the fleet on-cost.

<sup>66</sup> Available at [www.ergon.com.au/networktariffs](http://www.ergon.com.au/networktariffs).

Assignment or reassignment of customers to Ergon Energy's Alternative Control Services can occur as a result of:

- major customers requesting a new connection to the network or an upgrade to their existing connection
- public lighting customers requesting installation of a new public light, or gifting a new public light to Ergon Energy
- small customers requesting a change to their metering arrangements (e.g. installing controlled load or solar, or choosing another provider if competition is introduced)
- new service orders being raised as a result of a request for service by either a customer and/or retailer
- requests for a review of the assigned tariff class by either a customer and/or retailer.

Tariffs for Alternative Control Services will be allocated to tariff classes in accordance with the AER's classification of services for the regulatory control period 2015-20. As such, customers and retailers essentially assign themselves to a tariff class by selecting the service that they require. Ergon Energy therefore considers we meet the requirements of clauses 6.18.4(a)(1), (2) and (3) of the NER because the tariffs within each tariff class are provided to customers that have similar service requirements, without distinguishing between customers that have or do not have micro-generation facilities.

Ergon Energy has an effective system for assessing and reviewing an assignment or reassignment decision, as required under clause 6.18.4(4) of the NER. Details on these procedures are set out in our *Information Guide for Alternative Control Services Pricing*.

## 5.9 Supporting documentation

The following documents referenced in this chapter accompany our Regulatory Proposal:

Name	Ref	File name
Classification Proposal	02.01.01	Classification Proposal
Compliance with Control Mechanisms	04.01.00	Compliance with Control Mechanisms
Public Lighting Services Summary	05.01.01	Public Lighting Summary
Public Lighting Services PTRM	05.02.03	PLPTRM Data Model with Prices
Default Metering Services Summary	05.03.01	Default Metering Services Summary
Default Metering Services PTRM	05.04.07	MTPTRM Data Model
Inputs and assumptions for Alternative Control Services	05.05.01	Inputs and assumptions for ACS