In April Ergon Energy established a Customer Council AER2015 Working Group, as an extension of our standing Customer Council (our peak body consultative forum, which brings together representatives from nine peak organisations across regional Queensland, established in 2011).

The purpose of the smaller subgroup was to support the capacity of our key customer representative peak bodies to better understand and contribute to Ergon Energy’s developing expenditure proposal for the 2015 to 2020 regulatory control period.

The working group’s first meeting was held on the 16 April 2014, as a face to face meeting in Brisbane. It was Chaired by an independent facilitator with extensive regulatory experience, Malcolm Tadgell, Director Advisory, KPMG, in order to ensure the organisations involved were able explore issues as openly, and constructively as possible, and for Ergon Energy to obtain genuine feedback.

The suite of communiqué referenced below, that follows, was provided to the participants to support further understanding and discussion.

The presentations from the first meeting (see Meeting Notes – page 2) included:

- an introduction to Ergon Energy (see pages 8)
- the role of the working group itself (see page 31 and Charter page 113)
- the regulatory framework / and the regulatory reset process and timing (see page 36)
- Priority issues that we were seeking feedback on:
  - Classification of services (see page 44)
  - Approach to metering charges (see page 55)
  - Confidential material (see page 59)
  - Carry forward of revenue under-recoveries in current period (see page 65)
  - Treatment of feed-in-tariffs (see page 71)
- Ergon Energy’s customer engagement activity, research findings, and refreshed customer commitments (see page 88).
In Attendance:
Malcolm Tadgell (Chair) Director, KPMG
Tanya Acheson Ergon Energy, GM Customer and External Stakeholder Engagement
Jenny Doyle Ergon Energy, GM Regulatory Affairs
Carly Allen Queensland Council of Social Service
Mark Tucker-Evans Council on the Ageing Queensland
Ian Johnson Queensland Farmers Federation

Apologies:
Julia Mylne Chamber of Commerce and Industry Queensland
Scott Britton Local Government Association of Queensland
Jeff Thong Energy Users Association

MEETING ITEMS

About Ergon Energy

An introductory presentation provided a general overview of Ergon Energy, including its operating area, role in the electricity supply chain, corporate profile, service regions and legal and regulatory operating environment. Information was provided regarding the role of various statutory rule makers and regulatory bodies. The scope of the AER’s distribution determination was also clearly defined. The presentation was well received by Working Group members, who acknowledged it provided valuable background for their input into various decision making processes.

Pricing issues were discussed including the fact that the majority of regulated retail tariffs charged to Ergon Energy’s customers were either based on Energex’s network costs or on non cost-reflective transitional tariffs. This means that Ergon Energy’s network costs and tariff structures are not seen by the majority of customers. There was also a discussion on the Queensland Government’s Uniform Tariff Policy and the Queensland Competition Authority’s review of regulated prices in regional Queensland. Members appreciated the need for cost reflective pricing structures. However, they were concerned about the ability for their members to afford any further price increases. Understanding the real costs and the implications of Ergon Energy’s regulatory proposal to the AER were seen as the core value in attending the forum.

Members expressed considerable interest in gaining a better understanding of cost structures, as well as which regulator covers which aspect of the electricity industry and the links through to regulated tariff prices.

Actions:

A copy of the presentation and suggested talking points to be made available to member organisations.

A copy of the legislation map to be provided to member organisations to support understanding of the jurisdiction of various authorities (now included in presentation).

Ergon Energy to prepare a diagram illustrating relationship between network and retail tariffs (still to come).

Working Group

Members reviewed and endorsed the proposed charter for the Working Group, including that:

- The purpose of the Working Group is: for Ergon Energy to test and validate the direction of its regulatory proposal; explore customer views and impacts; and source customer input; and
- The Working Group: be advisory in nature; provide advice on customers’ needs and issues; act as a link to and from member organisations; and report back to Ergon Energy’s Customer Council.

It was agreed that general notes of the discussion and identified actions be taken and made available on the Ergon Energy website. Positive feedback was received from all members present regarding the appointment of an independent facilitator, who will chair the Working Group. This was considered a valuable resource to support consumer representatives to develop their capacity to engage in the AER processes. Members acknowledged that the independent facilitator would: not represent Ergon Energy; be impartial; not provide formal advice; seek to facilitate members’ understanding of key issues; convey questions from members to Ergon Energy, as well as Ergon Energy’s responses; and refer matters to Ergon Energy, where necessary.

Members requested flexibility in attendees to support the involvement of their consultants/subject matter experts. It was suggested the timing of meetings be scheduled to best support key input points in the regulatory reset process with formal meetings to be conducted at regular intervals (no more than once a month). Members indicated that it may be difficult to commit resources to more regular intervals. In recognition of resource limitations out-of-session phone link-ups were offered.

Action:

Finalise charter for working group, prepare and publish meeting notes following member approval.

Overview of Regulatory Framework

An overview of the regulatory framework and key milestones were outlined to the members. This discussion provided the opportunity for members to identify key elements of the determination process and where there were opportunities for them to provide input. Ergon Energy is aiming to prepare a draft regulatory proposal by the end of June. The Working Group’s input would need to be provided by September as the final regulatory proposal would need to progress through internal approval processes in early October for submission by the end of October.

Matters discussed in the overview of the regulatory framework included: key regulatory instruments; service classification; elements of the revenue building blocks; and turning the annual revenue requirement into network prices.

A high-level overview was provided of the nature of the documentation that Ergon Energy intends to provide to the AER to support its capital and operating expenditure forecasts that will be included in its regulatory proposal.

The independent facilitator also identified potential matters for Working Group members to consider in examining DNSPs’ regulatory proposals and encouraged members to participate in the determination process for the NSW DNSPs in order to identify any information that could help them engage more effectively in the subsequent Queensland process.

Members utilised the session to gain further clarity on the scope of the regulatory determination process and its links to retail prices in order to assist them in developing their submissions on Ergon Energy’s regulatory proposal. Members sought to understand the influence of the weighted average cost of capital (WACC) and the regulatory asset base (RAB) on Ergon Energy’s annual revenue requirements as these matters were discussed at the Consumer Challenge Panel.

Members identified that they (and other stakeholders) need to understand the relationship between Ergon Energy’s regulatory proposal and the end price for customers if they are to provide meaningful input into the determination process. The pricing proposal (as opposed to the regulatory proposal) was seen as an important matter to consult on. The tight timeframes for responding to the pricing proposal were noted by members as a potential barrier for engagement.
Throughout the discussion members identified a number of documents that they considered would be valuable to support them in engaging in the regulatory determination process and expressed their appreciation to the independent facilitator in identifying questions to ask and how to access information.

**Actions:**

* A copy of the regulatory framework presentation to be made available to member organisations.

* Next face to face meeting aim to provide members with an update on Ergon Energy’s draft expenditure forecasts.

* Members to be provided web links to Ergon Energy’s Forecast Methodology and Pricing Proposal, as well as the AER’s Framework and Approach paper (once it is issued at the end of April).


**Ergon Energy’s Customer Engagement**

Members were provided an overview of Ergon Energy’s AER customer-community engagement strategy. The key engagement principles and the extensive customer research program supporting the strategy were shared with the Working Group. With affordability the key concern for customers, the Working Group discussed the findings of the sophisticated Service Cost Trade-off Research study undertaken by Ergon Energy that explored the value that different customer segments place on reliability of supply and other services – their willingness to pay. Insights gained from this research combined with Ergon Energy’s existing research program, AER focused customer and stakeholder engagement/discussion groups and an online survey were used to refresh Ergon Energy’s customer commitments for the regulatory period.

Members questioned whether the research findings would be used to influence future reliability standards. It was noted that the research findings were used to inform Ergon Energy’s submission to the Queensland Competition Authority on its review of Minimum Service Standards and information was provided to them on the research. The research will continue to be used by Ergon Energy in discussion with regulators and policy makers on any discussions on reliability standards. Discussion also focused on the research findings regarding customer interest in transitioning to smart networks despite an apparent reluctance to invest in smart meters.

Whilst further information was requested regarding some elements of the research, members generally acknowledged the identified commitments reflected the priorities identified by their members. It was agreed these customer commitments combined with a set of more detailed direction statements would be useful in discussing with customers Ergon Energy’s customer priorities and how these commitments translate into investment plans.

**Actions:**


* Information to be provided to members regarding Ergon Energy’s current position on reliability standards.

* Members to be provided additional context regarding framing of questions relating to smart network investment.
Post Meeting Note:

Overall the investment priorities identified in the Service/Cost Trade-off Research were similar across both the business and residential segments with some differences in the percentages. Industry sectors were used to analyse the data (see sample below, used in Service Cost trade-off Summary Report, specifically slide 20). Residential profile segments were also identified and their preferences have been outlined in the (see slide 21).

Breakdown to the business sample:

\[ n = 513 \]

- Agriculture, Forestry and Fishing: 23%
- Manufacturing: 6%
- Other industry: 7%
- Retail Trade: 20%
- Accommodation and Food Services: 15%
- Other services: 25%
- Other: 3%
- Don’t know: 1%
- I prefer not to say: 1%

Priority Issues

The Independent Facilitator explained five issues that Ergon Energy identified as priorities for the Working Group to consider:

a) **Issue 1 – Classification of services** – the following matters were discussed: the role and importance of service classification in the regulatory framework; the service classification in the AER’s Proposed Framework and Approach paper; possible changes between the current and next regulatory control period; as well as Ergon Energy’s:
   - preference for small customer connections to remain Standard Control Services;
   - preference for the design and construction of large customer connections to be unregulated;
   - preference for classifying as alternative control services the commissioning and energisation of large customer connections and the augmentation of a network constraint faced by a generator;
   - concern about the potential impact that a change in classification of Type 5 and 6 metering will have on customers once metering and DUOS charges are unbundled; and
   - preference to treat emergency recoverable works as Standard Control Services.

b) **Issue 2 – Metering Charges** – the following charging options were discussed for metering services once they are unbundled from DUOS charges:
   - Upfront charge for new and additional meters (labour costs only) plus $/day charge for other metering services (materials, maintenance, reading, provision of data);
   - Upfront charge for new and additional meters (labour and equipment costs) plus $/day charge for other metering services (maintenance, reading, provision of data); and
   - $/day charge for all metering services.

c) **Issue 3 – Confidentiality** – the implications of the AER’s new Confidentiality Guidelines were discussed, together with Ergon Energy’s proposal to:
   - Publish most supporting documentation on its website when it submits its Regulatory Proposal;
   - Not publish information that is confidential or subject to stakeholder undertakings, but make the information available to the AER in a clear and transparent (and replicable) manner;
   - Upload some information onto its website before the Regulatory Proposal is submitted; and
- Develop a consumer-friendly web design.

d) **Issue 4 – Carry forward of revenue under-recoveries** – there was discussion of Ergon Energy’s current estimate that it will have a closing balance of approximately $54 million in its DUOS unders and overs account at the end of the current period and its proposal to:

- Adjust the closing balance of the 2014–15 DUOS unders and overs account by the WACC, in order to calculate the amount of the carry over in $2015–16 nominal terms;
- De-escalate the nominal amount by CPI to determine a carry-over amount in $2014–15 real terms;
- Allow Ergon Energy to propose the profile of how the carry-over amounts should be entered into the PTRM for the AER to approve in its Distribution Determination, in order to help Ergon Energy smooth out any expected volatility in customer prices in the next period.

e) **Issue 5 – Feed-in-Tariffs (FiT)** – there was discussion of Ergon Energy’s desire to mitigate the price impacts of transitioning from the current cost pass-through arrangements for the Solar Bonus Scheme (SBS) payments to a jurisdictional scheme. Four options were discussed that Ergon Energy has identified for achieving a smoothed price for customers:

- Option 1: Spreading the FiT pass through amounts across the five years of the next regulatory control period;
- Option 2: Early adoption of the SBS as a jurisdictional scheme;
- Option 3: Spreading the jurisdictional scheme amounts for 2015-16 and 2016-17 across the five years of the next regulatory control period; and
- Option 4: Delaying the recovering of the annual jurisdictional scheme amount by two years.

Working Group members were encouraged to provide input to Ergon Energy on these issues. Whilst members appeared to support (in-principle) Ergon Energy’s preferred approach of minimising cost shocks for customers, each member indicated that they wanted to take a considered approach and investigate the impact of each issue with their members. It was agreed that these five issues would be discussed further at a phone catch-up in May and then again at the next face-to-face meeting in June.

Members were also invited to identify other matters that they would like to discuss at future meetings and identified preliminary interest in discussing further:

- a) Small Customer Connections;
- b) Metering; and
- c) Treatment of feed-in-tariffs.

**Actions:**

**Ergon Energy to prepare summary documents on its five priority issues for members to consider.**

**Schedule a phone catch-up prior to the June meeting to: discuss members’ preliminary responses on five issues; understand any priority matters identified by members; finalise an agenda for June meeting; and identify any resources required to support members to contribute.**

**Next Meeting**

The meeting closed at 3.30pm.

Phone catch-up to be in May.

The next face-to-face meeting will be held in mid-June.
Our vision

To be a high performance, customer-driven energy business.

Our purpose

To provide safe, reliable, efficient and sustainable energy solutions to support our customers and the Queensland economy.
Strategic Objectives
• Customer choice & control
• Average network price increases below inflation (2015-2020)
• Increased energy productivity

Key Strategic Enablers
• Effective market
• Prudent investment
• Efficient service

Outcome
• Customer value
• Strong Queensland economy
National Electricity Market - Structure

- Energy purchasing
- Sales
- Billing/payment processing
- Inquiries

Retail

Retailer pays Generator for Energy

Distributor

Retailer pays Distributor for Delivery of Energy

Distributor pays Transmission for Delivery of Energy via Transmission Network

Customers pay Retailer for “bundled” service of delivered energy.

AEMO Electricity Trading Pool

Transmission

GWh

Generation

Network Activities

Transmission & Distribution
Ergon Energy’s business

**GENERATION**
A range of energy sources (coal-fired, biomass, gas, hydro and wind) is used by private and government-owned operators to generate Queensland’s electricity.

Although not a major generator, Ergon Energy operates a 55MW gas-fired power station at Barcaldine. It supplies power into the electricity grid. We also have 33 stand-alone power stations that supply communities isolated from the main grid in Western Queensland, the Gulf of Carpentaria, Cape York, various Torres Strait Islands and Palm Island.

**TRANSMISSION**
The transmission network consists of lines that carry electricity from the point of generation over long distances and feed it into the distribution network.

Powerlink Queensland, as a government-owned corporation, operates the high-voltage transmission network that extends along the Queensland coastline. Ergon Energy’s regional capability is used to help operate these assets cost-effectively. Ergon Energy also has its own 220kV network in the Mount Isa region.

**DISTRIBUTION**
Distribution lines then carry electricity directly to Queensland’s homes and businesses.

Electricity is delivered across regional Queensland through Ergon Energy’s network of ‘poles and wires’. Around 70% of our powerlines run through rural Queensland. Much of this part of our network, around 65,000 kilometres of line, uses the electricity distribution technology known as SWER (Single Wire Earth Return).

**RETAIL**
Electricity is purchased through the retailers, who also provide a range of other customer services.

A number of electricity retailers operate in regional Queensland – they buy electricity from the generators and on-sell it to customers. While Ergon Energy only offers the government-set tariffs, other retailers provide contestable market offers. Our retail business has specialist expertise in energy trading, billing and customer service, to name a few key areas.
Price of Electricity

WHAT MAKES UP THE PRICE OF ELECTRICITY?

- Electricity Generation 16.7%
  Wholesale Energy
- Solar Bonus 4%
  Feed in Tariff Scheme
- Carbon Tax 25%
  Price of Carbon
- Transmission and Distribution 48.2%
  Poles and Wires
- Retail 20%
  Metering, Billing and Customer Service
- Green Schemes 15%
  Renewable Energy Target

Cost components and percentages are based on the Queensland Competition Authority’s 2013/14 determination for residential tariffs.
Proposed Business Restructure Level Two (Senior Management Team)
Ergon Energy’s network

- Services vast distances and low customer density but relatively high consumption
- 6 times the size of Victoria – 97% of Queensland
- 710,000 customers across more than one million square kilometres
- A million power poles; 160,000km of powerlines
- Large summer-winter and day-night temperature variations
- Extreme weather – high rainfall, floods, cyclones
- Diverse topography, soil conditions, vegetation
Daintree Rainforest

23/04/2014
Daintree - Helicopter assisted line stringing
Solar farm - Windorah
Bamaga Power Station Construction – Equipment travelling from Cairns by barge
Cyclone Larry – March 2006
Cyclone Larry – March 2006
Emerald – Floods November 2008
Ergon Energy’s network

The customer density of Ergon Energy’s network ranked second lowest in an independent assessment of nine different distribution companies across Australia and New Zealand. p15

Ergon Energy operates the longest distribution network in Australia with only 4.4 customers per kilometre of line. Our reliability challenges are both common to the industry and unique – with fewer than a third of our customers living in urban areas, the majority are supplied through radial lines with limited redundancy in the event of a fault.
• **Purpose**
  • Test / validate direction of regulatory proposal
  • Explore customer reviews / impacts
  • Source customer input

• **Responsibilities**
  • Advisory in nature – decisions rest with Ergon Energy
  • Advice on customers’ needs issues
  • Act as link to and from member organisations
  • Report back to Customer Council

• **Membership - representative of:**
  • Residential (including disadvantaged customers)
  • Regional development
  • Commercial and industrial
  • Agriculture
  • Large energy users
Facilitator’s role

- Not representing Ergon Energy
- Impartial – not advocating positions on any issues
- Not providing formal advice
- Assisting / facilitating understanding
- Conveying information / answering questions
- Referring matters to Ergon Energy where necessary
- Preparing meeting records
- Following-up actions arising
• No formal minutes
• Record:
  • Matters discussed
  • Key themes
  • Proposals / requests
  • Actions
• No attribution to individuals / organisations
• Provide to members for validation
• Publish on Ergon Energy website
• Every two months
• Out-of-session meetings as required, e.g. where referrals made to members’ organisations
• Follow-up on actions between meetings
Overview of regulatory framework
Key Milestones

Ergon Forecast Methodology

Ergon Regulatory Proposal

Submissions on Regulatory Proposal

Ergon 2015/16 Pricing Proposal

Ergon Revised Regulatory Proposal

AER Final Better Regulation Guidelines

AER Preliminary F&A

AER Final F&A

AER Draft (Preliminary) Determination

AER Public Forum

AER Final (Substitute) Determination

Current period
(1/7/2010 – 30/6/2015)

Next period
(1/7/2015 – 30/6/2020)
Key elements of economic regulatory framework

- National Electricity Law
- National Electricity Rules

Regulatory Information Notices
- Annual
- Category Analysis
- Economic Benchmarking
- Reset

Better Regulation Reform Package
- Expenditure forecast assessment guideline
- Capital expenditure incentive guideline
- Efficiency benefit sharing scheme
- Rate of return guideline
- Regulatory investment test for distribution
- Shared asset guideline
- Confidentiality guideline
- Consumer engagement guideline
- Consumer challenge panel
Service classification

Step 1: Distribution Services

Step 2: Direct control services (revenue / price regulated) - Negotiated Distribution Services - Unclassified services

Step 3: Standard control services (general network charges) - Alternative control services (service specific charges)
Turning Revenue Building Blocks into prices

Post Tax Revenue Model

- Annual Revenue Requirement
  - CPI adjustment
  - Incentive Scheme Revenue
  - Transitional Revenue
  - Cost Pass through
  - DUOS unders/overs

Revenue Cap (Standard Control Services)
- 

Annual Pricing Process

- Designated Pricing Proposal Charges
  - Forecast TUOS expense
  - TUOS unders/overs
  - TUOS Revenue

Feed-in-Tariff Recoveries
- Forecast Feed-in-tariff (FIT) expense
  - FIT unders/overs
  - FIT Revenue

Network Use of System Charges (NUOS)

Feed-in-tariff charges

Transmission Use of System Charges (TUOS)

Distribution Use of System Charges (DUOS)

Alternative Control Services - Metering Charges
Draft structure of Ergon’s regulatory proposal package
**CONSUMER ENGAGEMENT GUIDELINE OBJECTIVE**
Aligning network services with the long term interests of consumers

**BEST PRACTICE PRINCIPLES**

<table>
<thead>
<tr>
<th>Principle</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clear, accurate and timely communication</td>
<td>Businesses should provide information to consumers that is clear, accurate, relevant and timely, recognising the different communication needs and wants of consumers.</td>
</tr>
<tr>
<td>Accessible and inclusive</td>
<td>Businesses should recognise, understand and involve consumers early and throughout the business activity or expenditure process.</td>
</tr>
<tr>
<td>Transparent</td>
<td>Businesses should clearly identify and explain the role of consumers in the engagement process, and to consult with consumers on information and feedback processes.</td>
</tr>
<tr>
<td>Measurable</td>
<td>Businesses should measure the success, or otherwise, of their engagement activities.</td>
</tr>
</tbody>
</table>

**COMPONENTS**

<table>
<thead>
<tr>
<th>Component</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priorities</td>
<td>Identify consumer cohorts, and the current views of those cohorts and their service provider; outline their engagement objectives; and discuss the processes to best achieve those objectives.</td>
</tr>
<tr>
<td>Delivery</td>
<td>Address the identified priorities via robust and thorough consumer engagement.</td>
</tr>
<tr>
<td>Results</td>
<td>Articulate the outcomes of their consumer engagement processes and how they measure the success of those processes reporting back to us, their business and consumers.</td>
</tr>
<tr>
<td>Evaluation and review</td>
<td>Periodically evaluate and review the effectiveness of their consumer engagement processes.</td>
</tr>
</tbody>
</table>
Customer Engagement – Priority Issues for Ergon Energy
Issue 1: Classification of Services
Background

- Distribution Determination will include a decision on how distribution services will be classified (the ‘Classification of Services’).
- Fundamentally important, as it will determine:
  - which of Ergon Energy’s services will be subject to pricing regulation by the AER
  - how associated costs are to be recovered from customers and retailers (e.g. through network tariffs, or separate charges levied on those who use the service).
- AER must have regard to the form of regulation factors in section 2F of the National Electricity Law (NEL), when classifying distribution services.
- AER must also have regard to factors in the Rules when classifying Direct Control Services as either Standard Control or Alternative Control Services. These include:
  - Potential for the development of competition
  - Administrative costs of the AER, the distributor and users or potential users
  - Previous regulatory approach, and desirability of a consistent regulatory approach
  - Extent to which costs are able to be directly attributable to the customer using the service.
  - Any other relevant factor
AER service classification process

Step 1: Distribution Services

Step 2:
- Direct control services (revenue / price regulated)
- Negotiated Distribution Services
- Unclassified services

Step 3:
- Standard control services (general network charges)
- Alternative control services (service specific charges)
## Proposed classification of services

<table>
<thead>
<tr>
<th>AER Service Group</th>
<th>Standard Control Service</th>
<th>Alternative Control Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Network Services</td>
<td>• Planning the network&lt;br&gt;• Designing the network&lt;br&gt;• Constructing the network&lt;br&gt;• Managing the network&lt;br&gt;• Operating the network&lt;br&gt;• Administrative support for provision of network services</td>
<td>• N/A</td>
</tr>
<tr>
<td>Pre-connection Services</td>
<td>• General connection enquiry services</td>
<td>• Connection application services&lt;br&gt;• Pre-connection consultation services</td>
</tr>
<tr>
<td>Connection Services</td>
<td>• Small customer connections</td>
<td>• Large customer connections&lt;br&gt;• Commissioning and energisation of large customer connections&lt;br&gt;• Removal of network constraint for embedded generator&lt;br&gt;• Temporary connections</td>
</tr>
<tr>
<td>Post-connection Services</td>
<td>• Operate and maintain connection assets</td>
<td>• Connection management services&lt;br&gt;• Accreditation of alternative service providers and approval of their designs, works and materials</td>
</tr>
<tr>
<td>Metering Services</td>
<td>• Type 7 metering services</td>
<td>• Type 5 and 8 metering installation&lt;br&gt;• Type 5 and 8 metering provision, maintenance, reading and data services&lt;br&gt;• Auxiliary metering services</td>
</tr>
<tr>
<td>Ancillary Network Services</td>
<td>• N/A</td>
<td>• Services provided in relation to a Retailer of Last Resort (ROLR) event&lt;br&gt;• Other recoverable works</td>
</tr>
<tr>
<td>Public Lighting</td>
<td>• N/A</td>
<td>• Provision, construction and maintenance of public lighting&lt;br&gt;• Emerging or new public lighting technology</td>
</tr>
</tbody>
</table>
## Changes to classification between regulatory periods

<table>
<thead>
<tr>
<th>Service</th>
<th>Current Classification</th>
<th>Proposed AER Classification for 2015–20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commissioning and energisation of large customer connections</td>
<td>Standard Control</td>
<td>Alternative Control</td>
</tr>
<tr>
<td>Removal of network constraint for embedded generator</td>
<td>Standard Control</td>
<td>Alternative Control</td>
</tr>
<tr>
<td>Accreditation of alternative service providers and approval of their designs, works and materials</td>
<td>Standard Control / Alternative Control</td>
<td>Alternative Control</td>
</tr>
<tr>
<td>Type 5 and 6 metering installation</td>
<td>Standard Control</td>
<td>Alternative Control</td>
</tr>
<tr>
<td>Type 5 and 6 metering provision, maintenance, reading and data services</td>
<td>Standard Control</td>
<td>Alternative Control</td>
</tr>
<tr>
<td>Auxiliary metering services</td>
<td>Standard Control / Alternative Control</td>
<td>Alternative Control</td>
</tr>
<tr>
<td>Services provided in relation to a Retailer of Last Resort (ROLR) event</td>
<td>Not currently classified</td>
<td>Alternative Control</td>
</tr>
<tr>
<td>Emerging or new public lighting technology</td>
<td>Not currently classified</td>
<td>Alternative Control</td>
</tr>
<tr>
<td>Emergency recoverable works</td>
<td>Alternative Control</td>
<td>Unclassified</td>
</tr>
</tbody>
</table>
# Service classification and possible basis of price

<table>
<thead>
<tr>
<th>Method for Pricing</th>
<th>Services</th>
<th>Service Classification</th>
</tr>
</thead>
</table>
| Prices that form part of the electricity bill for all network customers | • Network services  
• General connection enquiry services  
• Small customer connections  
• Type 7 metering services | Standard Control Services |
| Additional charges for services provided to certain customers | • Type 5 and 6 metering provision, maintenance, reading and data services | Alternative Control Services |
| Prices for work undertaken by Ergon Energy at the request or initiation of a customer or retailer | • Connection management services (selected)  
• Type 5 and 6 metering installation  
• Auxiliary metering services  
• Ancillary network services (selected) | Alternative Control Services |
| Fixed\(1^9\) | • Pre-connection consultation services  
• Connection application services  
• Design and construction of connection assets for large customers  
• Commissioning and energisation of large customer connections  
• Removal of network constraint for embedded generator  
• Temporary connections  
• Connection management services (selected)  
• Accreditation of alternative service providers and approval of their designs, works and materials  
• Ancillary network services (selected) | |
| Quoted\(2^0\) | | |

---

\(1^9\): Fixed price for services provided for specific customers.

\(2^0\): Quoted price based on individual customer requirements.
## Service classification and possible basis of price

<table>
<thead>
<tr>
<th>Method for Pricing</th>
<th>Services</th>
<th>Service Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Department of Transport and Main Roads</td>
<td>• Emerging or new public lighting technology</td>
<td></td>
</tr>
<tr>
<td>Prices for work offered by Ergon Energy on a competitive basis</td>
<td>• Type 1 to 4 metering</td>
<td>Unregulated</td>
</tr>
<tr>
<td></td>
<td>• Watchman</td>
<td></td>
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<td></td>
<td>• Shared assets</td>
<td></td>
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<tr>
<td>Additional prices for Local Councils and the Queensland</td>
<td>• Provision, construction and maintenance of public lighting</td>
<td>Alternative Control Services</td>
</tr>
</tbody>
</table>
Key decisions and positions in AER preliminary F&A

Small Customer Connections
• Small customer connections to remain a Standard Control Service. However, the AER could change their view if the Queensland Government were to allow competition in the provision of these services.

Large Customer Connections
• The design and construction of large customer connections is proposed to remain an Alternative Control Service as competition is still developing. The AER is interested in stakeholder feedback on whether the service could be reclassified as a negotiated service.
• Alternative Control arrangements proposed to be extended to include the commissioning and energisation of large customer connections (previously Standard Control).
• Network augmentation required to remove a network constraint faced by a generator proposed to be reclassified from Standard Control to Alternative Control.

Metering Services
• The AER intends to separate Type 5 and 6 metering services into two components:
  • Metering installation services
  • Metering provision, maintenance, reading and data services.
• Both components will be reclassified as Alternative Control Services, because the provision of these services is likely to become open to more competition in the near future.
• Type 7 metering services to remain Standard Control as there is no potential to develop competition, and costs are minimal.

Emergency Recoverable Works
• The AER is proposing to change the classification of emergency recoverable works (e.g. car hits pole) from Alternative Control to unregulated, similar to the approach taken in NSW.
Key positions in Ergon Energy response

Small Customer Connections

- Ergon Energy believes that small customer connections (except real estate developers) should remain Standard Control Services in its area
  - There is limited potential for competition in regional and remote areas in Queensland
  - Significant administrative costs for Ergon Energy to introduce
  - Significant cost impact on customers (if required to fund costs upfront)
  - Significant amount of stakeholder engagement required
  - Capital contribution policy already encourages a user pays approach
- For real estate developers, Ergon Energy is seeking an Alternative Control classification to support continuation of current government policy (developer to fully fund cost). There is effective competition in subdivision works in Ergon Energy’s area.

Large Customer Connections

- Not clear what incremental benefits are of moving to a negotiated classification for the design and construction of large customer connections. If the AER wishes to make a change to current classification, Ergon Energy considers it would be better to treat large customer connections as an unregulated service. This is because there is effective competition and limited barriers to entry by alternative service providers
- Ergon Energy supports the proposed change in classification for commissioning and energisation of large customer connections (i.e. to alternative control)
- Ergon Energy also supports the introduction of alternative control arrangement for any augmentation required to remove a network constraint faced by a generator. However Ergon Energy considers measures will need to be put in place to ensure generators do not fund works that are already part of DNSP’s network plans (i.e. already funded under standard control network services). Further, the service should not capture customers with micro-generation facilities, such as those customers otherwise classified as a Standard Asset Customer by the DNSP.
**Metering Services**

- 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).
- Ergon Energy thinks that the AER should be mindful of the impact that a change in classification will have on these customers, once Type 5 & 6 metering costs are unbundled (discussed further under Issue 5, Metering Charges)

**Emergency Recoverable Works**

- Do not support the proposed reclassification of emergency recoverable works. Ergon Energy believes the service should remain direct control, and further reclassified from Alternative Control to a Standard Control Service. This is because the works are a monopoly distribution service, there is no potential for development of competition, and it is in the interests of all customers that Ergon Energy be repaid for damage to the network
Issue 2: Metering Charges
Issues for consultation – metering charges

Background

• The majority of metering services are currently classified as Standard Control Services and included in DUOS charges
• The AER is proposing to reclassify metering services as Alternative Control Services
• The AEMC has recommended in the Power of Choice review that:
  • No party should have the exclusive right to provide a particular type of meter, unless a jurisdiction prescribes otherwise
  • Responsibility for coordinating metering services is to be separated from the Network Service Provider by creating a new Metering Coordinator Role
• Customers may engage a Metering Coordinator directly
• Metering charges must be unbundled from DUOS
• Impacts to customers resulting from the AER’s change in classification – regardless of how those charges are calculated
• Currently metering costs are included in DUOS
• In Ergon Energy’s area 99% of customers are on regulated retail tariffs.
• The majority of these customers are either on tariffs based on Energex’s N or transitional tariffs
• That is they do not reflect Ergon Energy’s costs
• The change in classification will require Ergon Energy to unbundle metering costs and bill separately to retailers
• As an Alternative Control Service, retailers including Ergon Energy Queensland are entitled to pass the charge through to customers
• This means customers will still see retail tariffs based on Energex’s N or non-cost reflective transitional tariffs plus Ergon Energy’s cost reflective metering charge
• Still uncertainty around how revenues and prices will be determined for metering services
• In the Preliminary F&A the AER indicated it would confirm the control mechanism basis through the distribution determination process.
• In response to the Preliminary F&A, Ergon Energy noted:

“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). 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.”
Ergon Energy is still considering the charging mechanisms for metering services and the potential cost impact. Options being considered:

- Upfront charge for new and additional meters (labour costs only) plus $/day charge for other metering services (materials, maintenance, reading, provision of data)
- Upfront charge for new and additional meters (labour and equipment costs) plus $/day charge for other metering services (maintenance, reading, provision of data)
- $/day charge for all metering services

At staff level, Ergon Energy’s preference is for the $/day charge for all metering services
Issue 3: Confidentiality
AER expectations around confidentiality

“AER requested the distributors outline their plan for dealing with confidential information at the next monthly meeting” (AER minutes 17 March)

“AER staff recommended the DNSPs start considering the information they are intending to claim confidentiality over and consulting with relevant stakeholders as to what alternatives may be suitable.” (AER Minutes 17 February)

Key issues to consider
What documents will Ergon Energy submit as supporting documents to its Regulatory Proposal?
What documents will Ergon Energy not submit as supporting documents to its Regulatory Proposal?
How will these supporting documents be submitted to the AER?
When will the supporting documents be submitted to the AER?
How will confidential documents be treated for the Regulatory Proposal?
AER Confidentiality Guidelines
AER has developed a Confidentiality Guideline which sets out how NSPs are required to make confidentiality claims over information they submit to the AER.
The AER strongly encourages NSPs to develop their own confidentiality arrangements prior to the submission of their proposals.
If this does not occur, the AER is more likely to use their information disclosure powers under the National Electricity Law to authorise disclosure.

Issues for Ergon
Onus is on Ergon Energy to provide total operating and capital expenditure forecasts to the AER for the upcoming regulatory control period.
There do not appear to be any provisions in the Rules that suggest the AER must take into account information that is referenced, but not provided.
This requires Ergon Energy to provide a large amount of information to the AER in case the AER needs it.
AER’s process for dealing with confidentiality claims

**STAGE 1**

**Pre-lodgement discussions** with the AER, the business, and stakeholders on what information is confidential. We may:
- agree that no information is confidential
- agree that some information is confidential
- disagree on what information is confidential and what information should be public.

**STAGE 2**

**The business submits its proposal** and completes the confidentiality template identifying what (if any) information it claims is confidential and why, categorising the information.

- **We assess the confidentiality claim** on its merits, taking into account the outcome of discussions from stage 1.
  - **We agree with the claim**
  - **We don’t agree with the claim**
    - **We use our formal disclosure powers**
      - **We disclose all information we possibly can for stakeholders, while protecting genuinely confidential information.**
Pre-lodgement discussions
Under the AER’s Confidentiality Guideline, NSPs are encouraged to engage in pre-lodgement discussions with stakeholders. The aim of these discussions is to resolve confidentiality issues prior to the regulatory proposal submission and for NSPs to develop their own methods of sharing information.
Ergon Energy will participate in pre-lodgement discussions:
• Engage with stakeholders about the types of information they need access to in order to understand and assess the substance of all issues arising from Ergon Energy’s information; and
• Present information in a way that still maintains confidentiality but simultaneously provides other stakeholders with enough information to understand and assess the substance of all issues affecting their interests.
This could be achieved through any of:
• Minimal redactions;
• Narrower confidentiality claims;
• Provision of detailed information adjusted to protect sensitive elements; and
• Limited release of confidential information, such as through confidentiality undertakings.
Ergon Energy’s Initial Thinking


Information that is confidential or subject to stakeholder undertakings will not be published, but Ergon Energy will need to make available the information to the AER in a clear and transparent (and replicable) manner.

To facilitate customer engagement, some material will also be uploaded onto Ergon Energy’s website before the Regulatory Proposal is submitted.

Ergon Energy will therefore need to develop a consumer-friendly web design that can enhance its community’s capacity to understand the issues. To assist, Ergon Energy will draw upon existing website designs from other NSPs, such as the Scottish and Southern Energy Power Distribution (SSE) website ([www.yourfutureenergynetwork.co.uk](http://www.yourfutureenergynetwork.co.uk)).
Issue 4: Carry forward of revenue under-recoveries
Background

• Under a revenue cap form of control, DNSPs revenues are adjusted to clear any under/over recoveries of actual DUOS revenue

• This ‘unders and overs’ process is undertaken as part of annual pricing and ensures the DNSP recovers no more and no less than the Maximum Allowable Revenue approved by the AER for any given year

• Clearing of DUOS under/over recoveries is subject to tolerance limits set by the AER.

• Where tolerance limits are triggered, a DNSP is required to spread DUOS under/over recoveries over multiple regulatory years, instead of clearing the entire under/over recovery in setting prices for the forthcoming year.

• Ergon Energy first exceeded the tolerance limits that applies to clearing DUOS unders/overs in 2012-13.

• AER approved Ergon Energy’s proposal to introduce a longer term plan to clear DUOS under-recoveries associated with the 2010-15 period in its 2012-13 Pricing Proposal
Ergon Energy’s DUOS under-recovery plans allows it to:

- Progressively clear the balance of the DUOS unders and overs account in setting prices during the 2010-15 period; and

- Clear any residual balance left in the DUOS unders and overs account at end of period, through a carry-over adjustment in the Post Tax Revenue Model (PTRM)

- Ergon Energy’s current estimate is that it will have a closing balance of approximately $54 million in its DUOS Unders and Overs account at the end of the period.

- Specifics of how the carry over adjustment will be calculated and entered into the PTRM still subject to discussion with the AER
### Ergon Energy DUOS under-recovery plan

#### Proposed Plan to Clear the DUOS Unders and Overs Account and Projected Opening and Closing Balances ($M, nominal)

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Proposed</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance on DUOS unders and overs account in year t (indexed for WACC to year t)</td>
<td>$0.00</td>
<td>$0.00</td>
<td>-$63.48</td>
</tr>
<tr>
<td>Plus other DUOS under/over adjustments approved by regulator</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plus DUOS under / over recovery from regulatory year t-2</td>
<td>-$6.00</td>
<td>-$0.30</td>
<td>-$78.90</td>
</tr>
<tr>
<td>Less DUOS unders/overs to be passed through in year t</td>
<td>$6.00</td>
<td>$0.30</td>
<td>$21.04</td>
</tr>
<tr>
<td>Closing balance on DUOS unders and overs account in year t</td>
<td>$0.00</td>
<td>$0.00</td>
<td>-$57.86</td>
</tr>
</tbody>
</table>

#### Annual change in revenues with and without smoothing of DUOS under-recoveries, current period

<table>
<thead>
<tr>
<th>Year</th>
<th>No Smoothing of DUOS Under-recoveries</th>
<th>With Smoothing of DUOS Under-recoveries</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010–11</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>2011–12</td>
<td>10.35%</td>
<td>10.35%</td>
</tr>
<tr>
<td>2012–13</td>
<td>19.25%</td>
<td>14.41%</td>
</tr>
<tr>
<td>2013–14</td>
<td>16.50%</td>
<td>13.71%</td>
</tr>
<tr>
<td>2014–15</td>
<td>15.01%</td>
<td>10.22%</td>
</tr>
</tbody>
</table>
In response to the preliminary F&A paper, Ergon Energy raised the issue of the carry-forward of revenue under-recoveries:

“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 applied in the current DUOS unders and Overs account to arrive at an opening balance in year t.

• 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.

• 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 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”
Ergon Energy and AER position

The AER (staff level) has indicated concern about the deferral of revenue recoveries:

“**We have a general concern about electively deferring revenues that should be recovered from (or repaid to) customers in a reasonable time-frame. The reason why we think the proposed deferral is acceptable hinges on it being in the interests of customers. A question we have, therefore, is how the DNSP has satisfied itself that the deferral of revenue recoveries is in the interests of customers. In preparing your pricing proposal you should address this question. While time may be short, we consider consultation with your customers on your intended approach would be appropriate.**”

[AER email 7 February]

“In response to your dot points:

- **For ‘normal’ forecast versus actual adjustments, the answer is yes. But if maintaining NPV neutrality of unders/overs account balance across regulatory periods for smoothing purposes, we cannot answer this question at this time. This is a matter we need to seek direction.**

- **For Aurora we required the balance to be included as a building block in the first year of the next regulatory period. The DUOS unders and overs account balance was then reset to zero.**

- **As part of the 2014-15 price approval process, we will need to sign off on the balance of the DUOS unders and overs account as at 30 June 2015. The determination will then confirm how this is to be recovered over the next regulatory control period.**”

[AER email 20 January]
Issue 5: Feed-in-Tariffs
**Background**

On 1 July 2008, the Queensland Government introduced the Solar Bonus Scheme (SBS) to provide eligible customers with credit for the surplus electricity generated by solar photovoltaic (PV) systems and exported into the Queensland electricity network.

Ergon Energy is liable to pay the amount of the Feed-in Tariff (FiT) credited to the PV customer by the retailer.

The AER’s 2010 Determination included the actual FiT amount paid to customers as a pass through event. It adopted a two year lag between incurring the difference between forecast and actuals and the resulting adjustment to allowable revenue.

Changes to the National Electricity Rules mean that in the next regulatory control, the amount paid to customers under the SBS is expected to be treated as a jurisdictional scheme amount, rather than a cost pass through.

The total amounts relating to the SBS to be recovered in the first two years of the next regulatory control period will be the sum of the pass through amounts from the last two years of the current regulatory control period and the jurisdictional scheme amounts. This results in a significant increase in the quantum of SBS amounts recovered in the first two years of the next regulatory control period, as illustrated in the following diagram.
Issues for consultation – feed in tariff

Figure 1: SBS payments included in annual revenue (business as usual approach)


- 2013-14 Under Recovery
- 2014-15 Under Recovery
- 2015-16 Scheme Amount
- 2016-17 Scheme Amount
- 2017-18 Scheme Amount
- 2018-19 Scheme Amount
- 2019-20 Scheme Amount

Note: For illustration purposes, the diagram ignores “unders and overs” adjustments for the jurisdictional scheme amounts. It also assumes constant FIT payments. In practice, FIT payments are expected to fall incrementally over time.
Options
Ergon Energy is keen to mitigate the price impacts of transitioning from the current cost pass through arrangements for the SBS payments to a jurisdictional scheme.

There are several potential options for achieving a smoothed price for customers:

- **Option 1**: Spreading the FiT pass through amounts across the five years of the next regulatory control period
- **Option 2**: Early adoption of the SBS as a jurisdictional scheme
- **Option 3**: Spreading the jurisdictional scheme amounts for 2015-16 and 2016-17 across the five years of the next regulatory control period
- **Option 4**: Delaying the recovering of the annual jurisdictional scheme amount by two years
Note: For illustration purposes, the diagram ignores “unders and overs” adjustments for the jurisdictional scheme amounts. It also assumes constant FiT payments. In practice, FiT payments are expected to fall incrementally over time.
This option involves adopting the solar bonus scheme as a jurisdictional scheme by 1 July 2014. This is contingent on the following steps:

- AER revoking and substituting the current distribution determination to remove FIT payments included in approved expenditure allowances
- Ergon Energy formally notifying the AER of its election to recover payments through the Pricing Proposal
- AER deciding to accept that election

Early application will not mitigate price impacts associated with transitioning to a jurisdictional scheme. If anything, Option 2 could bring forward price shocks to customers as 2014-15 prices would include:

- Forecast of 2014-15 FIT payments; PLUS
- Pass through amounts for payments incurred in 2012-13

Option 2 not practical, because:

- Unlikely AER will make decision on application within required timeframe (Pricing Proposal due 30 April 2014)
- Risks associated with seeking a revocation (i.e., potential to open up whole distribution determination)
Issues for consultation – Option 3
(spread jurisdictional scheme amounts)

Note: For illustration purposes, the diagram ignores "unders and overs" adjustments for the jurisdictional scheme amounts. It also assumes constant FIT payments. In practice, FIT payments are expected to fall incrementally over time.
Issues for consultation – Option 4 (delay recovery of jurisdictional scheme amounts)

Note: For illustration purposes, the diagram ignores "unders and overs" adjustments for the jurisdictional scheme amounts. It also assumes constant FIT payments. In practice, FIT payments are expected to fall incrementally over time.
In response to the preliminary F&A paper, Ergon Energy raised the issue of feed-in tariff recovery.

“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.

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.”

This approach is consistent with Option 4
The AER (staff level) has indicated that they do not support such an approach (extract from AER response):

“On Ergon’s proposed use of the jurisdictional scheme mechanism for feed-in tariff costs, the rules don’t allow a t-2 true up approach for the full amount as proposed. The rules require an estimate followed by a t-2 true-up for any under or over recovery. We also think it’s good regulatory practice to have the costs recovered as close as practicable to the time Ergon incurs costs, consistent with an estimate + true-up.

This brings back into focus how to deal with the double recovery in the first two years of next period. As you know, the AER Board has given in-principle approval to Energex’s proposal (Ergon note – similar to option 1). We suggest Ergon consider adopting a similar approach. We can discuss this further.

We’re proposing to write into the F&A that we will liaise with Ergon on the feed-in tariff issue, rather than set out an AER position, consistent with Ergon’s submitted proposal.”
Key Issues

- All options are likely to provide the same NPV return
- Difference is in the revenue and price outcomes
- NPV neutrality assumes opportunity cost of capital
### Current meter categorisation

<table>
<thead>
<tr>
<th><strong>Standard Control Services</strong>&lt;br&gt;(no additional charges apply)</th>
<th><strong>Alternative Control Services</strong>&lt;br&gt;(additional charges apply)</th>
<th><strong>Unregulated Services</strong>&lt;br&gt;(additional charges apply)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Installation of a ‘standard’ type 5, 6 or 7 meter (including standard meters for Inverter Energy Systems)</td>
<td>• Move/relocate meter equipment at the customer request</td>
<td>• Type 1-4 MDA services</td>
</tr>
<tr>
<td>• Installation of a hot water meter &amp; load control equipment</td>
<td>• Remove a meter or load control device at the customer request</td>
<td></td>
</tr>
<tr>
<td>• Installation of a load control device (relay or time clock)</td>
<td>• Special meter read or check read requested by the retailer</td>
<td></td>
</tr>
<tr>
<td>• Scheduled meter reading</td>
<td>• Meter tests</td>
<td></td>
</tr>
<tr>
<td>• Final meter reading</td>
<td>• Meter exchange at request of retailer</td>
<td></td>
</tr>
<tr>
<td>• Metering investigation requiring onsite inspection to check for tampering or fault</td>
<td>• Change to a time switch setting</td>
<td></td>
</tr>
<tr>
<td>• Maintaining and repairing meters and load control equipment</td>
<td>• Meter reprogramming to support a change in tariff</td>
<td></td>
</tr>
<tr>
<td>• Provision of ‘standard’ historical metering data (within 2 years) for a type 5-7 meter to meet minimum regulatory requirements</td>
<td>• Installation of pre-payment meters at the customer request</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Installation and maintenance of meters above minimum regulatory requirements</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Metering data provider services above minimum requirements</td>
<td></td>
</tr>
</tbody>
</table>
## AER’s Better Regulation Reform Package

<table>
<thead>
<tr>
<th>Workstream</th>
<th>Purpose</th>
<th>Guidelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure forecast assessment</td>
<td>Describes the process, techniques and associated data requirements for AER approach to setting efficient expenditure allowances for network businesses.</td>
<td>Expenditure forecast assessment guideline for electricity distribution</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Expenditure forecast assessment guideline for electricity transmission</td>
</tr>
<tr>
<td>Expenditure incentives</td>
<td>Creating the right incentives to encourage efficient spending by businesses and share the benefits of efficiencies with consumers.</td>
<td>Capital expenditure incentive guideline for electricity network service providers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Efficiency benefit sharing scheme for electricity network service providers</td>
</tr>
<tr>
<td>Rate of return</td>
<td>Sets out how we determine the return that electricity and gas network businesses can earn on their investments.</td>
<td>Rate of return guideline</td>
</tr>
<tr>
<td>Consumer engagement</td>
<td>Sets out a framework for electricity and gas service providers to better engage with consumers. Aims to help businesses develop strategies to engage systematically, consistently and strategically with consumers on issues that are significant to both parties.</td>
<td>Consumer engagement guideline for network service providers</td>
</tr>
<tr>
<td>Shared assets</td>
<td>Outlines how consumers will benefit from the other services electricity network businesses may provide using the assets consumers pay for.</td>
<td>Shared asset guideline</td>
</tr>
<tr>
<td>Confidentiality</td>
<td>Sets out how energy network businesses must make confidentiality claims over information they submit to us. This guideline balances protecting genuinely confidential information with ensuring that stakeholders can access sufficient information on issues affecting their interests.</td>
<td>Confidentiality guideline</td>
</tr>
<tr>
<td>Power of choice implementation (RIT-D)</td>
<td>Establishes consistent, clear and efficient planning processes for distribution network investments in the national electricity market.</td>
<td>Regulatory investment test for distribution application guidelines</td>
</tr>
<tr>
<td>Consumer challenge panel</td>
<td>Provide an independent consumer perspective to challenge the AER and network service providers during determination processes.</td>
<td>n/a</td>
</tr>
</tbody>
</table>
AER's proposed approach to estimating rate of return

**Parameters**
- Market risk premium (range and point estimate)
- Equity beta (range and point estimate)
- Risk free rate (point estimate)
- Ten year term

**Foundation model**
Sharpe-Lintner Capital Asset Pricing (CAPM)

**Return on equity (40%)**
Funds raised from the market/investors

A range of models, methods, and information
Set the range of inputs into the foundation model or assist in determining a point estimate within a range of estimates

**Return on debt (60%)**
Funds raised from borrowing

**Trailing average portfolio approach**
For a debt portfolio with a proposed benchmark term of debt of ten years

**Estimation procedure**
Independent third party data provider (benchmark debt term of ten years and credit rating of BBB+ or equivalent)

**Imputation credits ('gamma')**
Affects a business' revenue through adjustments to its tax liability.

**Consideration of a range of evidence leading to a current point estimate of 0.5**
### Opex base step trend methodology

<table>
<thead>
<tr>
<th>Base</th>
<th>Trend</th>
<th>Step</th>
<th>Adjust</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior year efficient operating expenditure</td>
<td>Multiply by: output growth driver</td>
<td>Multiply by: productivity growth driver</td>
<td>Multiply by: Real price growth driver</td>
</tr>
<tr>
<td></td>
<td>Plus: step changes</td>
<td></td>
<td>Plus: non-recurrent costs</td>
</tr>
<tr>
<td></td>
<td>Plus: non-recurrent costs</td>
<td></td>
<td>Plus: cash payments</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
### Current classification of connection services

<table>
<thead>
<tr>
<th></th>
<th>Small customers</th>
<th>Large customers</th>
<th>Street lighting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Standard control services</strong></td>
<td>- Shared network assets</td>
<td>- Shared network assets</td>
<td>- Shared network assets</td>
</tr>
<tr>
<td></td>
<td>- Connection assets</td>
<td>- Testing and commissioning of shared network and connection assets</td>
<td>- Connection assets</td>
</tr>
<tr>
<td></td>
<td>- Testing and commissioning of shared network and connection assets</td>
<td>- Testing and commissioning of shared network and connection assets</td>
<td>- Testing and commissioning of shared network and connection assets</td>
</tr>
<tr>
<td><strong>Alternative control services</strong></td>
<td>- Design and construction of dedicated connection assets</td>
<td>- Provision of street lighting assets that are owned, operated and maintained by Ergon Energy</td>
<td>- Provision of street lighting assets that are owned, operated and maintained by Ergon Energy</td>
</tr>
</tbody>
</table>
Ergon Energy Approach to Customer Engagement

Tanya Acheson
## Our customer and community engagement strategy

| Our recent engagement efforts have been about taking a fresh look at where our customers and the community believe our investment priorities should be. |

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<th>Appreciating who has a stake</th>
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<td>Researching to ensure everyone has a voice</td>
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THE LAUNCH – Launched at July Townsville stakeholder event with the engagement approach communicated online (web page). Briefings commenced with Customer Council, which has been ongoing, as well as the first wave of stakeholder engagement.

THE RESEARCH – A review of our existing research was undertaken, an online survey was opened to all, and service cost trade-off research was undertaken to allow customer concerns to be actively considered in the development of the final proposal.

SHARING OUR DIRECTION – The aim is to now publically validate and position the direction of the proposal with active stakeholder engagement.
• Launched in July 2013 at the stakeholder event, *Townsville - Creating Energy Futures for Queensland* – over 50 stakeholders discussed the challenges and opportunities and how they could be involved.

• Engagement then continued at an Agforce conference and at both the Annual Conferences for the Local Government Association Queensland (LGAQ) and the Local Government Managers Australia (LGMA).

• Ergon Energy’s Customer Council is playing a key role. The Council brings together representatives from nine peak organisations from across regional Queensland.

• Over 100 regional stakeholders have also been approached and given the opportunity to provide input. Presentations have also been made to a number of retiree community groups. 60 people responded to our online survey.

• Established a Real Estate Developer Reference Group to provide strategic advice on improvement plans in the new connections area.

• Ergon Energy also presented at the Queensland Competition Authority’s regional community tariff workshops as part of our engagement on network tariff strategy.
CHOICE MODELLING:

SCENARIO 1
1 x 6 hour outage
Annual
Normal working hours
No change in bill

SCENARIO 2
2 x 4 hour outage
Annual
After hours
2% increase in bill

To quantify reliability tolerance by customer segment in the context of the willingness to pay.

ADDITIONAL WILLINGNESS TO PAY:

• Investment in the network’s resilience to severe weather
• Smart network support for solar and other new technologies
• Minimising the community impact of new infrastructure
• The roll out of smart meters and the customer benefits
• The importance of local depots
• Acceptance of more cost effective communication channels.
The cost of electricity is a significant issue for our customers. Many feel they have done all they can to reduce their usage, and others are investing in technologies, such as solar, to reduce their bill.

Customers have reached a tipping point where they are no longer willing to pay more for further improvement in the reliability of electricity supply. Most would even accept more frequent and longer outages, if it meant a decrease in their bill.

A customers’ reliance on electricity, their current reliability experience and their geographical location can impact willingness to pay for different reliability standards:

- Customers have a preference not to be impacted at certain times: for business generally their most critical hours are 7am-1pm and for residential customers it is 5pm-8pm.

- Those who feel that they are ‘frequently impacted’ by outages consider both ‘price’ and ‘length of outage’ as important, while those ‘barely impacted’ see ‘price’ as most the significant concern.

- Looking at residential customer preferences, customers inland from the coastal population centres, who typically experience more outages, have a slightly higher willingness to pay for reliability improvement.
Despite price being a major concern, customers still support expenditure to varying degrees across a range of Ergon Energy’s core service areas.

- The findings showed particularly strong support for maintaining the current number of local depots and improving the network’s resilience to severe weather.
- There is support for Ergon Energy transitioning towards a smart network in order to allow customers to take up emerging technologies (however, there was less willingness to pay for smart meters).
- There is general support for Ergon Energy taking reasonable endeavours to minimise the community impact of new infrastructure, if this has a minimal impact on their electricity bill.
- There is strong support for the introduction of alternative communication channels, including SMS, social media and online self-service (especially as this could reduce costs).

Customers would like one week’s notice before Ergon Energy conducts a planned outage. And for unexpected outages, they would like updates on restoration times to be available within the hour. However, few believe funds should be prioritised to deliver improvements in these areas.
Key insights (continued)

RESIDENTS

Importance
Divided across 100%

Performance
Out of 10

- Supply: 7.7
- Corporate & Social Responsibility: 7.4
- Customer Experience: 7.1
- Cost / Affordability: 5.6

*Graphs showing trends in importance and performance over time.*

*Colmar Brunton.*
Key insights (continued)

- **Business Performance**
  - **Out of 10**
  - **Supply**: 7.2
  - **Corporate & Social Responsibility**: 6.7
  - **Customer Experience**: 5.3
  - **Cost / Affordability**: 4.4

**Importance Chart**

- **Y-axis**: Percentage
- **X-axis**: Months (Jan - Jun 11, Jul - Dec 11, Jan - Jun 12, Jul - Dec 12, Jan - Jun 13, Jul - Dec 13)
- **Lines**:
  - Supply: Light blue
  - Customer Experience: Red
  - Cost/Affordability: Purple
  - Corporate & Social Responsibility: Green

- **Legend**:
  - Supply: 12%
  - Customer Experience: 26%
  - Cost/Affordability: 14%
  - Corporate & Social Responsibility: 34%

- **Trends**:
  - Supply: Increased from 9% to 51%
  - Customer Experience: Increased from 23% to 24%
  - Cost/Affordability: Increased from 9% to 24%
  - Corporate & Social Responsibility: Decreased from 41% to 25%
Regional Queenslanders are trying to reduce their electricity use to save on their bills

87% have consciously tried to reduce their electricity consumption in the last 12 months.

89% to reduce the size of their bill (or for those with solar, to maximise their feed in tariff).

11% for environmental or other reasons.

The number one reason regional Queenslanders are going solar is to save money

36% currently have or intend to purchase a solar PV system

76% to reduce the size of their bill.

34% for environmental or other reasons.
RESIDENTIAL
Key insights (continued)

BUSINESS

- Bill Decrease & Lower Reliability
- Bill Increase & Higher Reliability

1. Highest interest in a 10% price decrease, and more so than a 15% price decrease
2. Moderate willingness for prices to stay the same
3. Unwilling to accept a 5% price increase
4. No willingness at all to pay more than a 5% price increase
Customers believe Ergon Energy should...

Most Willing to Pay:
1. Maintain Local Depots
2. Expansion in Network Resilience
3. Maintain Current Network Reliability
4. Transition Towards a Smart Network
5. Minimise Community Impact of New Infrastructure
6. Rolling Out of Smart Meters
7. Improve Outage Notifications
8. Invest in Communication Channels

Least Willing to Pay:
Our response – refreshed commitments

PEACE OF MIND

1. Our goal for our safety performance is to stand with the best in our industry …
   to be Always Safe.

2. We’ll maintain recent overall improvements in power supply reliability… and continue to improve the experience of customers who are suffering outages well outside our standards.

3. We’ll be there after the storm, prepared and with the resources to respond to whatever Mother Nature delivers.

4. We’ll meet our guaranteed services commitments. If we don’t we’ll pay you.

5. We’ll play our part in powering the economy by making it easier to connect to the network.
Our response (continued)

CHOICE AND CONTROL

6. We’re looking to the future – and evolving the network to best support customer choice in economic electricity supply solutions.

7. We’ll make it easier for you to contact us, by phone, Facebook, Twitter... and provide you with the information you need, when and how you need it.

FOR THE BEST POSSIBLE PRICE

8. We’re targeting to reduce our part of the electricity bill – and keep increases over the five-years under inflation.
Our approach to safety

Our goal is for our safety performance is to stand with the best in our industry... to be Always Safe.

We’re committed to managing the network to best ensure public safety, with a strong understanding of the risk profile of our assets, and prioritising remedial works to address any identified safety risks.

Our safety commitment is also about by building a high level of awareness across the community of safe practices around electricity infrastructure, and safety when using electricity.

This commitment is also about taking the organisation’s work, health and safety performance into the top quartile of the benchmarking undertaken annually by the Energy Networks Association (ENA) – for our employee lost time injury frequency rate.
We’ll maintain recent overall improvements in power supply reliability... and continue to improve the experience of customers that suffer outages well outside our standards.

The first part of this commitment is in line with the changes to the Minimum Service Standards (MSS) we have advocated for, which are to be included in the Queensland Electricity Code for 2015-2020.

Having said this, the second part of our commitment reflects our focus on monitoring and, where practical, improving the reliability of supply of the consistently poor performing sections of the distribution network.

As well as reliability, we also remain committed to proactively addressing quality of supply in accordance with the technical standards.
Our disaster and storm response

We’ll be there after the storm, prepared and with the resources to respond whatever Mother Nature delivers.

While we cannot guarantee to keep the lights on during cyclones and other extreme weather events, we can reassure the community that we are prepared and ready to deal with these events.

Harold Pratt from Mission Beach – like many members of the community – praised the crews working in the heat and humidity to restore power following Cyclone Yasi in 2011.

“The Ergon guys are great – doing a top job in very tough conditions … I don't believe it would have been possible for the crews to work any harder or any faster. They’re brilliant.”
Ergon Energy aims to meet a high level of customer service satisfaction. We’ll continue to monitor our performance across a broad range of service areas and respond proactively when issues arise.

Where, despite our best efforts, a customer is not happy with our service and makes a complaint, we’ll respond promptly and appropriately – at least 90% of complaints will be responded to within two working days, and 75% will be resolved within five working days.

We also have Guaranteed Service Levels across our key service areas:

- Connections
- Reconnections
- Wrongful disconnections
- Hot water supply
- Appointments
- Planned Interruption Notification
- Duration and Frequency Interruption

We’ll meet these commitments. If we don’t we’ll pay you.
Timely new network connections

We’ll play our part in powering economic growth by making it easier to connect to the network.

To do this, we’ll continue to make improvements to our policies, standards and practices around new connections and customer-initiated network upgrades.

This will include expanding the choices available to our large customers and real estate developers when connecting new load to the grid.

For real estate developers undertaking their own ‘developer design and construct’ projects (for residential, rural, commercial and industrial subdivisions), our service promises are being outlined in a dedicated Customer Charter.

We also recognise our customers are seeking service delivery improvement around the smaller customer-initiated connections, where the electrical reticulation works are performed by Ergon Energy.

We will also continue our Community Powerline Project fund to support community-initiated streetscape beautification projects, where the relocation or underground of existing overhead powerlines is required.
A future of customer choice

We’re looking to the future – and evolving so that we can best support customer choice in economic electricity supply solutions.

We’re increasingly taking on the role of a provider of essential infrastructure that connects buyers and sellers of energy services, and allows all participants – customers, generators, or those storing energy and managing demand – to get value from the network.

We’ll restructure the way we charge for the use of the network to provide greater choice and equity, and ensure we maintain a viable network for the benefit of all of our customers.

And we’ll continue to shape our services to meet your evolving needs.

We’ll also work hard to ensure our efforts to modernise the electricity grid deliver us greater efficiencies, so that the supply chain is sustainable, and the price for electricity is both affordable and equitable.
We’ll make it easier for you to contact us – by phone, Facebook, Twitter... and provide you with the information you need, when and how you need it.

We’ll continue to look for ways to improve the interaction experience with our contact centre.

We’ll also continue to build our expertise and capacity to engage online.

And look for innovative ways to improve outage communications.

We’ll also work collaboratively in other ways with our customers and industry partners to best manage the demand on the network.

We always take our corporate responsibilities seriously by assessing and minimising the social, environmental and economic impact on our communities of our decision making.
Bringing electricity prices down

All of our strategic and operational plans are focused on putting downward pressure on electricity prices, while continuing to deliver peace of mind to our customers – by way of a safe, reliable electricity supply – and greater customer choice and control moving forward.

Our expenditure proposals for 2015-2020 are being developed with the goal of keeping our total revenue requirement for the regulatory control period below the total revenue requirement approved for the current five-year period.

This will reduce our part of the electricity bill – that is the average network tariffs – and ensure increases over the five-years are under inflation.

To deliver the proposal, and these customer savings, will be challenging but we believe it is what our customers are asking for.
## Next Phase of Engagement – Sharing Our Direction

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<td>Sharing Our Plans On Web</td>
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<td>Customer Council Working Group</td>
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<td>Proactive Online Media Campaign</td>
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<td>Regional for Business &amp; Community Groups</td>
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<td>Major Customers</td>
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<td>Regional Stakeholder Engagement</td>
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<td>Real Estate Developers</td>
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2014 Customer Council AER2015 Working Group – Charter

This Charter defines the purpose, responsibilities and composition of the 2014 Customer Council AER2015 Working Group. This Charter is an extension of the Customer Council Charter.

Purpose

Ergon Energy is currently developing its expenditure proposal for the Australian Energy Regulator (AER) to determine the revenue allowance for the 2015 to 2020 regulatory control period. Customer and community views and concerns are being used to inform Ergon Energy’s priorities in the development of the proposal. To achieve this, while Ergon Energy has been undertaking an extensive customer and stakeholder engagement program, a dedicated working group is now also seen as vital. This working group will provide a forum through which Ergon Energy can validate the direction of the proposal, and explore any customer impacts of related regulatory or specific business decisions. The working group will enable Ergon Energy to elicit customer input on these matters from the areas represented by the groups’ membership.

The members of the working group will be fully briefed to enable informed and active discussion.

Responsibilities

The working group, like the Customer Council, is advisory in nature and therefore is not a decision making body. Decisions rest with Ergon Energy following consideration of input or advice from the group.

The working group will have the following responsibilities:

- Provide advice to Ergon Energy in regards to customer needs, issues and services across the areas identified as pertinent to developing Ergon Energy’s operational and capital expenditure program
- Act as a link to and from their respective member organisation networks and facilitate customer feedback from these networks on the working groups’ agenda items
- Report back to the Customer Council to help the wider group better understand the regulatory environment and the direction Ergon Energy is adopting for 2015-2020.

Membership

Members of the working group will consist of representatives from peak organisations representing the following areas: residential customers (including disadvantaged customers); regional development; commercial and industry customers; agricultural sector; and large energy users

Each member will need to have time, experience (most notably the regional Queensland representation) and the skills required to engage deeply on the matters presented for review by the group (they do not necessarily have to be the same individuals/organisations participating on the Customer Council). To achieve this, the working group will be supported by an external facilitator with regulatory understanding of the industry and the process of revenue determination.

The working group will consist of 5-6 members, as well as Ergon Energy representatives.

The commitment would consist of an initial day long workshop to present the developing proposal, then a meeting every second month where new developments can be presented for review. In addition, there is the potential for email correspondence or out of session teleconference meetings on specific matters.

The working group will operate from March to October 2014 (when Ergon Energy’s expenditure proposal will be presented to the AER), however, maybe reconvened if matters require review or further feedback in the process of the AER making their determination.