

Ergon Energy Corporation Limited

**Excluded Distribution Services –
Pricing Principles Statement 2009-10**

QCA Approved – April 2009

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1 Introduction

The Queensland Competition Authority (QCA) in its “*Electricity Distribution: Determination of Prescribed Services*” declared all services provided by a Queensland Distribution Network Service Provider (DNSP) that are associated with, or ancillary to, access to that DNSP’s network for the supply of electricity within that DNSP’s service area, as ‘prescribed services’ and therefore subject to economic regulation by the QCA.

The QCA in its “*Final Determination Regulation of Electricity Distribution, April 2005*” (Final Determination) determined that the form of regulation to apply to prescribed services would be a revenue cap. Prescribed services included under the revenue cap, include distribution use of system services (DUOS) for which a network tariff is paid to the DNSP, as well as other non-DUOS services which are funded by customers or retailers through either standard fees or quoted charges.

In 2007, the QCA, following a public consultation, decided to reclassify the non-DUOS services currently provided by Ergon Energy as excluded distribution services. This decision is set out in the QCA’s “*Final Decision, Electricity Distribution: Review of Excluded Distribution Services*” (Final Decision). The QCA has decided to adopt a three-part framework in regulating these services, incorporating:

- The application of broad pricing principles and the submission of a Pricing Principles Statement outlining the calculation of prices for excluded distribution services;
- An annual price approval process whereby the QCA confirms that the approved Pricing Principles Statement has been applied by Ergon Energy in constructing the proposed prices for excluded distribution services; and
- Annual reporting to the QCA, and publication by the QCA, of excluded distribution services revenue and prices to ensure that actual prices are consistent with those approved.

This Excluded Distribution Services Pricing Principles Statement is designed to fulfil the requirements of the QCA as set out in its Final Decision, and to communicate the methodology for establishing prices for excluded distribution services in 2009-10.

2 Regulatory Compliance

Ergon Energy must comply with the requirements of the QCA, both as the economic regulator and as the body responsible for administration of the Queensland Electricity Industry Code (the Code). Ergon Energy must also comply with the requirements of the Department of Mines and Energy (DME) which is responsible for issuing and monitoring Ergon Energy’s Distribution Authority and any conditions attached to that Authority. The DME is also responsible for the Electricity Regulation 2006.

In developing its prices and charging for excluded distribution services, Ergon Energy must comply with the QCA’s requirements set out in its Final Decision. However, for a number of services, a cap has been placed on the prices that Ergon Energy may charge by the Minister for Mines and Energy. These maximum prices have been incorporated in Schedule 4 of the Code (monitored by the QCA) and in Schedule 8 of the Electricity Regulation 2006 (monitored by DME). Ergon Energy must comply with these requirements in the setting and charging of prices for excluded distribution services.

Ergon Energy must also have regard for the pricing principles set out in the National Electricity Law, Section 7A, which in summary are:

- A reasonable opportunity to recover at least the efficient costs incurred in providing the services;
- Effective incentives in order to promote economic efficiency;
- Regard should be had to the regulatory asset base;
- A return commensurate with the regulatory and commercial risks involved in providing the services;
- Regard should be had to the economic costs and risks of the potential for under and over investment; and
- Regard should be had to the economic costs and risks of the potential for under and over utilisation.

3 Excluded Distribution Services

3.1 Description of Excluded Distribution Services

There are two classes of excluded distribution services, those provided to customers and retailers where work is recovered based on the full cost of service provision (POA services) and services provided to customers and retailers where work is recovered based on a standard charge for cost of service provision.

The excluded distribution services that are recovered based on full cost of service provision include:

- **recoverable works** not subject to legislative provisions - carried out by Ergon Energy at the request of customers and other external parties in relation to relocating network assets and are not related to the transport of energy. Examples are where a customer requests that a pole be moved or high load escort services;
- **service line drops** associated with the temporary de-energisation and re-energisation of supply where the service is physically dismantled or disconnected; and
- **project fees** relating to design works performed for a “firm offer” which does not proceed to construction.

The excluded distribution services that are recovered based on a standard charge basis include works carried out by Ergon Energy that would not otherwise have been required for the efficient management of the network. Examples of these services are works requested by retailers on behalf of their customers via B2B transactions including:

- **de-energisation and re-energisation;**
- **special meter reads;**
- **meter tests** (whole current installations); and
- **temporary builders’ services** which relate to the temporary connection of building sites to the distribution network until such time as the construction of the facility is complete or until that structure is equipped with its own permanent supply.

A description of all excluded distribution services provided by Ergon Energy are set out in Appendix 1.

3.2 Changes to Excluded Distribution Services from QCA’s Final Decision

Following a review of its services and service descriptions, Ergon Energy has made a change to its service list. The change is to introduce two new services being:

- Change Time Switch – Change to time switch settings; and
- Change Tariff - Change to tariff that requires meter reprogramming (except for controlled load timing changes).

These services have not been offered in previous years as EECL did not receive requests for this type of work from its area retail entity (Ergon Energy Queensland).

EECL is now starting to receive requests for both of these services from retailers, and consistent with the other excluded distribution services, Ergon Energy needs to send appropriate price signals to manage these work requests.

4 Terms and Conditions

Excluded distribution services are provided under Ergon Energy's standard commercial contracts and terms and conditions. These include the Standard Connection Contract (as set out in Annexure A to the Code) and the Standard Coordination Agreement (as set out in Annexure C to the Code), where applicable.¹

¹ The Standard Connection Contract applies to customers at a premises, for the connection of the premises, maintenance of the connection and the supply of electricity, where a Negotiated Connection Contract is not in force. The Standard Coordination Agreement applies to retailers and distributors and provides for coordination in the performance of certain rights and obligations in respect of customers, where a Negotiated Coordination Agreement is not in force.

5 Pricing Principles

Ergon Energy's objective is to ensure that the prices for excluded distribution services are developed in a manner that is:

- **compliant with regulatory requirements** – prices must comply with the requirements and framework set out by the QCA;
- **cost-reflective** – prices should, to the greatest extent possible, reflect the actual cost of service provision to customers;
- **free from cross subsidy** – this requires that the price for a customer, or group of customers, recovers costs which are between the 'floor' price which is the incremental cost of service provision and a 'ceiling' price represented by the stand-alone cost of service provision;
- **economically efficient** – prices should send appropriate signalling to third parties requesting services of their impact on Ergon Energy's existing and future capacity to provide these services and the costs of doing so;
- **equitable** – prices should avoid undue discrimination between customers;
- **provides price stability** – prices should be stable and predictable through time to permit customers to make informed decisions;
- **transparent**;
- **practical**; and
- **simplicity** – prices should be readily understood by customers and other stakeholders and be easy to apply.

A statement in relation to how each of these will be met is set out below.

5.1 Regulatory Compliance

Ergon Energy's prices will be developed in accordance with its approved Excluded Distribution Services Pricing Principles Statement, reflect current industry practices and costs as required by the Final Decision, and will be consistent with the current regulatory regime.

5.2 Cost-Reflectivity

Ergon Energy's prices will be developed using a fully distributed cost methodology which includes the direct and indirect costs of providing the service. That is, each service will be priced according to the cost of providing the particular service. Costs will be allocated to each service in accordance with the QCA approved Cost Allocation Methods and Procedures.

5.3 Free from Cross Subsidy

Prices will be developed to limit the cross subsidisation that would occur with a postage stamped price, by:

- Identifying those feeder types where Ergon Energy can observe a material difference in the travel time and crew number required to undertake and complete a service²;
- Estimating the time taken for Ergon Energy staff to attend the service call, and ensuring that different charges are levied for service calls requiring one versus two (or more) on-site visits;
- Retaining its current quoting system for services which vary significantly between service calls, and where providing a standard price would necessarily impose cross-subsidisation with other services or between services of the same type; and
- Developing prices for the services for business hours and after hours, therefore ensuring that retailers and customers requesting after-hours services do not enjoy a benefit over retailers requesting services during business hours.

5.4 Economic Efficiency

Ergon Energy believes that the prices will be economically efficient because they will signal the economic cost of the service provision and promote the efficient use of the service by:

- limiting the cross subsidisation that would occur with a postage stamped price (as discussed above);
- having regard to the level of available service capacity;
- signalling the impact of additional usage on existing and future investment costs; and
- calculating prices for POA services that are explicitly tailored to the costs of the individual job.

5.5 Prices are equitable

Ergon Energy acknowledges that there will always exist a trade-off between equity and efficiency, particularly where there are large differences in the costs associated with providing what appears to be the same service. That notwithstanding, Ergon Energy believes that the prices will be equitable because:

- Ergon Energy has developed a list of services that is the same across all customers and all regions and which it believes adequately reflects the services that will be demanded in the market, thereby offering an equitable range and standard of services to all customers;
- Ergon Energy is offering postage stamped prices for services within each type of feeder. For example, services provided to customers on urban feeders are priced the same in all regions of Ergon Energy; and
- Prices for POA services are calculated on a consistent basis using Ergon Energy's current quoting system. This quoting system tailors the price to the work involved to complete the individual service. This means that prices are calculated on the same basis for all customers

² Ergon Energy notes that the Minister for Mines and Energy has placed a cap on the prices for which a standard charge exists so that customers on long rural and isolated feeders pay no more than customers on urban and short rural feeders for the same service.

5.6 Prices Ensure Price Stability

Ergon Energy has sought to provide price stability for third parties by establishing an annual list of services and prices to commence from 1 July each year and to be replaced by revised services and prices from the commencement of the following financial year.

As prices will be calculated in accordance with the approved Excluded Distribution Services Pricing Principles Statement it is expected that there will be price movements only where underlying cost increases occur. Ergon Energy will avoid large upward price shocks by phasing in large price increases where necessary.

5.7 Prices are Transparent, Practical and Easily Understood

Ergon Energy will seek to ensure that the prices for excluded distribution services are transparent, practical and easily understood by providing to users or prospective users of the services:

- Information about the service – users of these services are provided with basic information about the service on the price list, so parties are able to request the most appropriate service for their particular circumstance;
- Information about how prices are set so that stakeholders understand how charges are derived; and
- Information about the inclusions and exclusions of the service – users of the service are, except for ‘quoted’ services, aware of the amount that they will pay when they request the service.

6 Pricing Methodology

To ensure prices are developed in accordance with the pricing principles identified above, Ergon Energy has adopted the following approach for network price development:

- Each individual service type has been priced in order to reflect, to the greatest extent possible, the costs of providing that particular service;
- Retaining a “price on application” charge for some services where a standard service is not possible due to the variances in the precise nature of the services being sought by third parties;
- Establishing prices based on the customer’s feeder type to avoid cross-subsidisation that may result from an average cost of service provision across feeder types;
- Establishing prices based on business hours or after hours (where offered);
- Incorporating a zero margin in the “operating cost” components of the prices for all services. Ergon Energy has however charged for the profit component inherent in the return on equity component of the weighted average cost of capital applied to assets used in the provision of services as noted below;
- Allowing for the cost of capital for equipment and vehicles in the provision of services. The capital allowance incorporates both a return of capital (depreciation) as well as a return on capital of 8.5% (WACC as per the Final Determination). The capital allowance is allocated on the basis of total hours to perform the service

(vehicles and plant and equipment), or the number of jobs performed (for IT, communications, buildings and office equipment and furniture);

- Analysing the cost of service provision, which involves:
 - Estimating the average time taken in hours to travel to and from the Ergon Energy depot for the identified service and the feeder type;
 - Estimating the time taken in hours for Ergon Energy staff to undertake and complete the service, including the number of visits required to complete the work;
 - Understanding the type of staff required to perform each individual service;
 - Estimating the number of Ergon Energy staff required to undertake the service (which may reflect the type of service or the location where the service is performed);
 - Understanding the time of day and week that the work is performed;
 - Understanding the direct materials and other direct costs associated with the provision of each service; and
 - Allocating, for each service, an amount of capital which could be reasonably expected to be required for the provision of the service, for the purposes of establishing the 'capital allowance' noted below.

The price for both standard charge services and POA services is calculated using the following formula”

$$\text{PRICE} = \text{LABOUR COSTS} + \text{DIRECT (NON-CAPITALISED) MATERIALS} + \text{OTHER DIRECT COSTS} + \text{CAPITAL ALLOWANCE} + \text{GST}$$

Note:

- Labour costs include on-costs, (for example employee benefits) which reflect the actual costs associated with the provision of labour. Labour costs also include corporate overheads.

Appendix 1

<i>Service</i>	<i>Service Description</i>	<i>Category</i>
New Connections		
Temporary Builders Supply, not in permanent position- single phase metered - business hours	Connection of a single phase supply to a meter location that is not permanent	Standard Charge
Temporary Builders Supply not in permanent position - multi phase metered - business hours	Connection of a multi phase supply to a meter location that is not permanent	Standard Charge
Re-test at customer's installation during business hours	Customer has submitted Form A and the Retailer has issued a Service Order Request, but installation fails test and cannot be connected, requiring a re-test of the installation - business hours	Standard Charge
Re-energisations		
Re-energisation during business hours	Re-energisation commenced during business hours	Standard Charge
Re-energisation after hours	Re-energisation commenced after business hours	Standard Charge
De-energisations		
De-energisation during business hours	De-energisation commenced during business hours	Standard Charge
De-energisation after hours	De-energisation commenced after business hours	Standard Charge
Additions and Alterations		
Move the meter	Relocate meter from current position; no change of service point	Standard Charge
Provision, installation and maintenance of meters beyond minimum requirements at customer request	Provision of meters above the minimum regulatory requirements	POA
Prepayment Meters at customer request	Installation of pre-payment meters on request - see Notified Prices for conditions.	POA
Removal of a meter	Removal of a meter at retailer request; no re-wiring required	Standard Charge
Removal of load control device	Remove load control relay or time clock	Standard Charge
Meter exchange at request of retailer	Like for like meter exchange, unless not allowed by regulation.	Standard Charge
Temporary De-energisation single visit during business hours - no dismantling	Temporary de-energisation and re-energisation of supply at the service fuse to allow customer or contractor to work close - no dismantling of service required (i.e. no service line drop). Typically 1 hour or less on site	POA
LV Service line drop and replace in single visit during business hours - physical dismantling	Temporary de-energisation and re-energisation of supply to allow customer or contractor to work close - the service will be physically dismantled or disconnected (eg Overhead Service dropped). Typically 1 hour or less on site	POA
HV Service line drop and replace in single visit during business hours	Temporary de-energisation and re-energisation of supply to allow customer or contractor to work close - High Voltage Switching and access is required.	POA

<i>Service</i>	<i>Service Description</i>	<i>Category</i>
HV Service line drop and replace in single visit after hours	Temporary de-energisation and re-energisation of supply to allow customer or contractor to work close - High Voltage Switching and access is required.	POA
Temporary de-energisation two visits during business hours (same day)- no dismantling	Temporary de-energisation and re-energisation of supply at the service fuse to allow customer or contractor to work close - no dismantling of service required (i.e. no service line drop).	POA
LV Service line drop and replace two visits during business hours (same day) - physical dismantling	Temporary de-energisation and re-energisation of supply to allow customer or contractor to work close - the service will be physically dismantled or disconnected (eg Overhead Service dropped).	POA
LV Service line drop and replace two visits after hours (same day) - physical dismantling	Temporary de-energisation and re-energisation of supply to allow customer or contractor to work close - the service will be physically dismantled or disconnected (eg Overhead Service dropped).	POA
Relocation of point of attachment of service (single visit) - single/multi phase during business hours	De-energisation, followed by physical dismantling then reattachment of service and re-energisation. Typically one hour or less on site.	Standard Charge
Relocation of point of attachment of service (two visits)- single/multi phase during business hours	De-energisation, followed by physical dismantling then reattachment of service and re-energisation	Standard Charge
Special Meter Reads		
Special meter read	Off-cycle meter read, during business hours	Standard Charge
Meter check read	Off-cycle meter read, during business hours	Standard Charge
Meter Reconfiguration		
Change Time Switch	Change to time switch settings	Standard Charge
Change Tariff	Change to tariff that requires meter reprogramming (except for controlled load timing changes)	Standard Charge
Reprogram Card Meters	Attend and re-program card meters to reflect retail tariffs, outside scheduled visit	POA
Meter Investigation		
Meter test (whole current only)	Meter test by EECL for EECL whole current meters only - only available where meter installed and operational.	Standard Charge
Meter test (CT/VT)	Meter test by EECL for EECL meters attached to a CT or VT only - only available where meter installed and operational.	POA
Supply Abolishment		
Supply Abolishment during business hours	Decommissioning of a NMI and associated metering. May be used where a property is to be demolished; supply is no longer required; an alternative connection point is to be used; or a redundant supply is to be removed	Standard Charge

<i>Service</i>	<i>Service Description</i>	<i>Category</i>
Other Services		
Provision of service during business hours requiring one person crew	For example: safety observer, installation inspection, query tariff, revenue protection activity - business hours	POA
Provision of service after hours, requiring one person crew	For example: safety observer, installation inspection, query tariff, revenue protection activity - after hours	POA
Provision of service during business hours requiring two person crew	For example: tree trimming, switching - business hours	POA
Provision of service after hours requiring two person crew	For example: tree trimming, switching - after hours	POA
Wasted truck visit - one person crew	Service is not able to be completed after truck has left the depot. Includes: Retailer/customer cancels service order after truck has left the depot but before service order is completed; Crew is unable to access site to perform service order; or Customer has submitted Form A and the Retailer a Service Order Request, but the installation is not ready on arrival at site.	Standard Charge
Wasted truck visit - two person crew	Service is not able to be completed after truck has left the depot. Includes: Retailer/customer cancels service order after truck has left the depot but before service order is completed; Crew is unable to access site to perform service order; or Customer has submitted Form A and the Retailer a Service Order Request, but the installation is not ready on arrival at site.	Standard Charge
Provision of metering data above minimum requirements	For example: urgent delivery, summarisation of metering data etc	POA
Provision of time of use metering data	Provision of half hourly data on request	POA
Provision of historical metering data	Request for historical metering data prior to the previous 2 years, on request.	POA
Restoration of supply required due to customer action, during business hours	For example: service fuse replacement or restoration of loss of supply caused by the customer's installation - business hours	Standard Charge
Restoration of supply required due to customer action, after hours	For example: service fuse replacement or restoration of loss of supply caused by the customer's installation - after hours	Standard Charge
Voltage and Load Check during business hours, no EECL fault found	Voltage and load check - not EECL fault	POA
Voltage and Load Check after hours, no EECL fault found	Voltage and load check - not EECL fault	POA
Overhead service upgrade - no change to load		Standard Charge

<i>Service</i>	<i>Service Description</i>	<i>Category</i>
Underground service upgrade		POA
High Load Escort - network service	Request by customer to disconnect and reconnect to the distribution network and lift wires to allow a high load vehicle through the most appropriate corridor	POA
Erection of extra poles (only on customer's installation)	Customer requested erection of extra poles	POA
Higher reliability or quality of supply	Customer requested increase in reliability or quality of supply beyond the standard	POA
Tiger tails	Installation of covers on service lines	POA
Conversion of aerial bundled cables	Conversion of separate aerial cables to bundled aerial cables.	POA
Rectification of illegal connections	Repair works to re-establish a safe and legal connection	POA
Other recoverable works	Customer requested services, or services performed as a result of customer action, that would not otherwise have been required for the efficient management of the network, or covered by another service	POA
Subdivision Fees	Fees associated with consideration of sub-division plans	POA
Project Fees	Fees associated with consideration of projects other than sub-divisions	POA

Note:

The Minister for Mines and Energy has placed a cap on the price Ergon Energy is able to charge for some services in this list. These maximum prices have been incorporated into Schedule 4 of the Electricity Industry Code and Schedule 8 of the Electricity Regulation 2006.