

# Draft Decision

**Power and Water  
Corporation**

**Electricity Distribution**

**Determination 2024 to 2029**

**(1 July 2024 to 30 June 2029)**

**Attachment 16**

**Alternative Control Services**

**September 2023**

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## 16 Alternative control services

This attachment sets out our draft decision on prices Power and Water Corporation is allowed to charge customers for the provision of the following alternative control services: ancillary network services and metering.

Alternative control services are customer specific or customer requested services and so the full cost of the service is attributed to a particular customer, or group of customers, benefiting from the service.

We set service specific prices to provide a reasonable opportunity to the distributor to recover the efficient cost of each service from customers using that service. This is in contrast to standard control services where costs are spread across the general network customer base.

### 16.1 Ancillary network services

Ancillary network services are non-routine services provided to individual customers as requested. Our F&A paper outlines several types of services that meet this broad definition.<sup>1</sup>

Ancillary network services are charged to customers on a user-pays approach on either a fee or quotation basis, depending on the nature of the service.

We determine price caps for fee-based services for the 2024–29 period as part of our determination, based on the cost inputs and the average time taken to perform each service. These services tend to be homogenous in nature and scope and can be costed in advance of supply with reasonable certainty, such as disconnections and special meter reads.

By comparison, prices for quoted services are based on the quantities of labour and materials required, with the quantities dependent on a particular task. Prices for quoted services are determined at the time of a customer's enquiry and reflect the individual requirements of the customer's service request.

For this reason, it is not possible to list prices for quoted services in our decision. However, our draft decision sets the maximum labour rates to be applied to quoted services.

#### 16.1.1 Draft decision

##### 16.1.1.1 Form of control for ancillary network services

Our draft decision is to maintain our final F&A position to apply price caps to ancillary network services as the form of control.

Under a price cap form of control, we set a schedule of price caps for fee-based services and maximum labour rates for quoted services for the first year of the regulatory control period, 2024–25. For each year thereafter, we adjust the price caps and maximum labour rates for

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<sup>1</sup> See AER, *Final framework and approach for Power and Water Corporation for the 2024-29 regulatory control period*, July 2022, pp. 5–6. Our F&A paper outlines several types of services that can be considered as meeting this broad definition such as network ancillary services, basic connection services and non-routine metering services.

inflation, the X factor,<sup>2</sup> and any relevant adjustments. This mechanism is set out in greater detail in section 14.5.2 of Attachment 14 – Control mechanisms.

As ancillary network services have a high share of labour and labour-related inputs, we use labour price growth forecasts as the ancillary network services X factor. Consistent with our previous decisions, we would usually derive the X factor by averaging wage price index growth forecasts from KPMG (provided by the AER) and BIS Oxford Economics (provided by the distributor).<sup>3</sup> Power and Water Corporation intends to propose updated labour price growth forecasts as part of its revised proposal,<sup>4</sup> so our draft decision is to use X factors that are based solely on our forecasts. We will update the X factors in the final decision using our standard method.

Our draft decision X factors for ancillary network services are set out in appendix A.

### 16.1.1.2 Fee-based and quoted services

Our draft decision does not accept Power and Water Corporation's (PWC) proposal as submitted. Based on our analysis and updated inputs, our draft decision is to:

- Substitute PWC's proposed X factors with our draft decision labour price growth forecasts (see Table A.1 in appendix A).
- Accept the following proposed fee-based and quoted services labour rates as they are below the maximum labour rates which we consider are efficient:
  - Internal – Tech (after hours)
  - Internal – Comms (after hours)
  - Internal – Engineering (after hours).
- Not accept the following labour rates as they are above the maximum labour rate which we consider efficient. As a result, we have substituted them with our maximum labour rate benchmarks:
  - Internal – Tech (business hours)
  - Internal – Admin (business and after hours)
  - Internal – Comms (business hours)
  - Internal – Engineering (business hours).
- Not accept the application of an overhead rate of 83.08%, which is above our benchmark rate of 61%. We have applied our benchmark rate instead in our draft decision. However, PWC has said it will revise its overhead rate in its revised proposal.
- Substitute PWC's proposed year one (2024–25) fee-based service price caps with our draft decision price caps, based on applying our draft decision on inflation, labour rates and overhead rate (see section 16.1.4.2 and Table A.2 in appendix A).

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<sup>2</sup> Under the CPI–X framework, the X factor measures the real rate of change in prices from one year to the next. For ancillary network services, the X factor is the wage price growth given that labour is the primary cost input for providing these services.

<sup>3</sup> For more detail on the reasons for this decision, see the discussion in section 6.4.2 of Attachment 6 – Operating expenditure.

<sup>4</sup> PWC, *Information request PWC IR#024 – Ancillary network services revised overheads – 20230720*, Received 27 July 2023.

### 16.1.2 Power and Water Corporation’s proposal

PWC proposed 49 discrete ancillary network services, of which 29 were fee-based.<sup>5</sup>

PWC proposed four labour categories to reflect the different types of labour it uses in providing ancillary network services (see Table 16.1). This approach is consistent with previous proposals that we have accepted and our benchmarking approach.

PWC derived its proposed labour rates for the 2024–29 period using its real labour costs and assumptions on billable hours.<sup>6</sup>

PWC applied a bottom-up approach to develop prices for most of its fee-based services using the AER’s standardised ancillary network services model.<sup>7</sup> As part of its proposal, PWC proposed an updated overhead rate of 83.08%. It also proposed recovering a tax allowance for the capital component of its exchange or replace meter services.<sup>8</sup>

PWC, through its use of the AER’s standardised ancillary network services model, proposed to continue the use of labour price growth forecasts as the X factor for ancillary network services.

Table 16.1 and Table 16.2 in section 16.1.4.1 contain PWC’s proposed labour rates for business hours and after hours, respectively.<sup>9</sup>

### 16.1.3 Assessment approach

The regulatory framework for assessing alternative control services is less prescriptive than for standard control services. That is, there is no requirement to apply the building block model exactly as prescribed in Part C of the National Electricity Rules (NER).

On this basis, our approach involves an assessment of the efficient costs of providing ancillary network services. Labour costs are the major input in the cost build-up of prices for ancillary network services. Therefore, our assessment focusses on comparing PWC’s proposed labour rates against maximum total labour rates, which we consider efficient.

Where PWC’s proposed labour rates exceed our maximum efficient labour rates, we apply our maximum efficient labour rates to determine prices. We follow this assessment process for services provided on a fee or quotation basis.

We also considered relevant stakeholder feedback raised throughout the consultation process and benchmarked PWC’s proposed ancillary network services prices against its prices for the 2019–24 period and other relevant distributors. We will also make further

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<sup>5</sup> PWC, *13.11 – 2024-29 ACS Fee Based and Quoted Services Model*, 31 Jan 2023.

<sup>6</sup> PWC, *13.02 – Labour rate methodology*, 31 Jan 2023.

<sup>7</sup> PWC, *13.11 – 2024-29 ACS Fee Based and Quoted Services Model*, 31 Jan 2023.

<sup>8</sup> ‘Exchange or replace meter - three phase’ and ‘Exchange or replace meter - single phase’ services

<sup>9</sup> The labour rates in Table 16.1 are specifically for quoted services, though they are consistent with the labour rates for fee-based services. The difference is that “base” labour rates and on-costs are the explicit labour input for fee-based services, with overheads being calculated at a later stage based on total direct costs (labour, materials and so on).

adjustments to PWC’s ancillary network services prices where we consider it appropriate to do so.

### **16.1.4 Reasons for draft decision**

Section 16.1.4.1 discusses the maximum labour rates we consider are appropriate for PWC.

Section 16.1.4.2 sets out how we assessed PWC’s proposed fee-based prices and, where appropriate, adjusted them to derive our draft decision prices for 2024–25. This includes substituting our draft decision labour rates (among other draft decision factors), where necessary, following our considerations as set out in section 16.1.4.1.

Section 16.1.4.3 discusses other issues raised during the submission period.

#### **16.1.4.1 Proposed labour rates**

For ancillary network services we typically review the key inputs in determining the price for the service. We focus on labour rates as these are the principal input.

Consistent with the 2019–24 period, we continue to categorise PWC’s proposed labour rates into five different categories. This is on the basis that although distributors use different labour categories and descriptions, the types of labour used to deliver ancillary network services broadly fall into the following categories: administration, technical specialists, field workers, engineers, and senior engineers.

This method is a continuation of Marsden Jacob’s previous reports for the AER in relation to labour rates and ancillary network services.<sup>10</sup> In assessing the reasonableness of the proposed labour rates, we:

- derived salary ranges for our labour categories using NT salary data for various electricity distribution-related occupations from the most recent, publicly available Hays Salary Guide (Hays)
- derived the raw hourly rate using the maximum salaries in each of the categories, dividing by number of weeks in a year and hours in a week
- escalated for on-costs (leave, superannuation, workers compensation, payroll tax)
- escalated for overheads – we continue to use a maximum overhead rate of 61%, based on Marsden Jacob’s analysis. We note the profit margin allocation is already included within the overall overhead allowance
- escalated for assumed inflation, labour rate escalators (reflecting the wage price index) and an allowance to account for salary stickiness in the Hays data
- added an hourly vehicle cost, where required.

In aggregate, these elements are referred to as the ‘maximum reasonable benchmark rate’, which is expressed as an hourly rate.

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<sup>10</sup> Recent reports include: Marsden Jacob Report, *Review of Alternative control services for SA Power Networks Energex and Ergon Energy*, June 2019; Marsden Jacob Associates, *Review of Victorian distributors Alternative Control Services*, June 2020.

Compared to our 2019–24 period decision, we have made the following changes to the way we derive our maximum reasonable benchmark rate:

- using a 38-hour week, rather than a 40-hour week, consistent with the latest Hays report
- excluding salary data from the ‘Transmission line engineer’ and ‘Generator technician’ occupations from our analysis
- uplift the engineer rate by 20% to obtain the senior engineer rate
- using Hays 2022–23 data (instead of the most recent 2023–24 data) for technical specialists, field workers and engineering managers
- use of real inflation (CPI) and X factors to convert labour rates and the vehicle allowance to \$2024–25.

#### **Excluding occupations and the uplift for engineers**

In considering labour rate benchmarks in the lead-up to our issues paper, we benchmarked the distributors’ proposed labour rates with the most recent (at the time) labour rates derived from the Hays 2022–23 data. We found that, under our methodology, engineers and senior engineers would have the same hourly rate.

We applied several changes in deriving the raw labour rates. Upon consultation with our internal technical experts, we removed the roles of ‘Transmission line engineer’ (categorised as engineer) and ‘Generator technician’ (technical specialist) from their respective benchmarks as they are not typically employed by distributors.

Further, we consider it is not appropriate to assign occupations to the senior engineer category because senior engineer salaries reflect time in role, not particular occupations. Instead, we applied a 20% uplift from engineer salaries as a reasonable premium for time in role.

#### **Changes to Hays Salary Guide**

In July 2023, Hays released its 2023–24 salary data. There were some significant changes in its reporting with the report no longer including wage data for the technical specialist and field worker roles. It also did not update salaries for engineering managers. To derive our benchmarks for these labour categories, we instead use the latest data that we have, which is the Hays 2022–23 data.

For the administration and engineer labour categories, we used the Hays 2023–24 data as the relevant rates are still available.

In addition, we note that the Hays 2023–24 data is based on a 38-hour week.<sup>11</sup> We have therefore derived our maximum reasonable benchmark rates using a 38-hour week as we consider the Hays data captures the conditions of the broad labour pool from which PWC draws its labour.

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<sup>11</sup> *Hays Salary Guide FY23/24 Australia and New Zealand*, p. 2



### Determining labour rates in \$2024–25

Finally, we applied one or two-year’s worth of real inflation and X factors to convert the 2022–23 and 2023–24 labour rates (respectively, depending on which was applicable) to \$2024–25. To convert \$2022–23 nominal rates into \$2023–24 nominal terms (where relevant), we used actual CPI consistent with the method we apply during annual pricing and consistent with our draft decision on control mechanisms.<sup>12</sup> To convert \$2023–24 nominal rates into \$2024–25 nominal terms, we have applied forecast CPI from the Reserve Bank of Australia as a placeholder for this draft decision. We will apply actual CPI consistent with our control mechanism in our final decision.

We also used this approach to escalate the \$20 per hour vehicle allowance in our previous decisions for inflation only (i.e. no X factor) to \$23.87.<sup>13</sup>

To obtain the benchmark after hour rates, we continue to apply 1.75 times the business hourly rate, as recommended by Marsden Jacob.

Using this method, Table 16.1 includes our maximum hourly labour rate for the six labour benchmark categories and PWC’s proposed prices for business hours. Table 16.2 contains the same information for after hours.

**Table 16.1 AER maximum benchmark and PWC proposed hourly labour rates for 2024–25 (business hours, including on-costs and overheads, \$2024–25)**

	AER benchmark category	AER maximum labour rate	PWC proposed labour rate
Internal - Tech	Technical specialist	\$240.35	\$247.82
Internal - Admin	Administration	\$118.48	\$185.79
Internal - Comms	Technical specialist	\$240.35	\$247.82
Internal - Engineering	Engineer	\$263.29	\$295.86

**Table 16.2 AER maximum benchmark and PWC proposed hourly labour rates for 2024–25 (after hours, including on-costs and overheads, \$2024–25)**

	AER benchmark category	AER maximum labour rate	PWC proposed labour rate
Internal - Tech	Technical specialist	\$420.61	\$304.82

<sup>12</sup> AER, *Draft decision – Power and Water Corporation distribution determination 2024–29 - Attachment 14 - Control mechanisms*, September 2023.

<sup>13</sup> See for example AER, *Draft decision - Powercor distribution determination 2021-26 - Attachment 16 - Alternative control services*, September 2020, p.6; Marsden Jacob Associates, *Review of Victorian distributors Alternative Control Services*, June 2020, p. 24.

	AER benchmark category	AER maximum labour rate	PWC proposed labour rate
Internal - Admin	Administration	\$207.34	\$228.52
Internal - Comms	Technical specialist	\$420.61	\$304.82
Internal - Engineering	Engineer	\$460.76	\$363.91

### Outcomes of our benchmarking

As a result of our benchmarking, we do not accept the following labour rates proposed by PWC and have substituted in our maximum labour rates:

- Internal – Tech (business hours)
- Internal – Admin (business and after hours)
- Internal – Comms (business hours)
- Internal – Engineering (business hours)

Table A.3 in appendix A sets out our draft decision on the labour rates PWC can utilise in the provision of quoted services.

Section 16.1.4.2 discusses the effect of our draft decision on labour rates on PWC’s prices for fee-based services.

#### 16.1.4.2 Proposed fee-based services and benchmarking

Our draft decision is to not accept PWC’s proposed prices for fee-based services. We adjusted the following inputs in the calculation of PWC’s prices for fee-based services:

- labour inputs (see section 16.1.4.1)
- reduction of the overhead rate.

Appendix A sets out our draft decision prices for PWC’s fee-based services incorporating these adjustments.

As we detailed in section 16.1.4.1, we have adjusted PWC’s proposed labour rates to reflect the outcome of our assessment of efficient labour rates. These adjustments have reduced PWC’s proposed prices by an average of 13.32% across all proposed fee-based services.<sup>14</sup>

In addition to our labour rates analysis, we benchmarked PWC’s fee-based services by comparing its prices and assumptions for its most commonly requested services with other distributor’s proposals, as well as comparing the proposed prices against those we approved for the 2019–24 period.

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<sup>14</sup> This average is unweighted and does not consider the quantity of services performed.

We observed large increases in price when we compared PWC’s proposed 2024–25 fee-based service prices with their 2023–24 equivalents (which are based on the prices we set in our previous decision). Jacana Energy’s submission also noted that PWC proposed significantly higher prices compared to the approved 2023–24 prices.<sup>15</sup>

PWC’s response to our information request noted the drivers of the price increases were mainly attributed to inflation, an increase in the network and corporate overheads allocated to fee-based services and increases in labour rates.<sup>16</sup>

We observe PWC’s overhead rates have increased from 37.38% to 83.08% which is a material change (overheads are discussed in the following section). We have also observed an increase in labour rates. As discussed in section 16.1.4.1, we note a number of proposed rates are above our labour rate benchmarks.

We also benchmarked PWC’s most commonly requested fee-based services against similar services provided by other electricity distributors. After adjusting for labour rates and overheads, we found the adjusted fee-based service prices tended to benchmark well.

#### **Power and Water Corporation’s overheads**

We do not accept PWC’s proposed overhead rate of 83.08% because it is above our benchmark overhead rate of 61%.

In its submission, Jacana Energy noted that while it supported changes that improved cost reflectivity in pricing, it considered that PWC should provide more details and justify its allocation of corporate overheads to ancillary network services.<sup>17</sup>

PWC submitted to us that its 83.07% overhead rate reflected the AER approved cost allocation methodology (CAM) for PWC and that the percentages were derived from its 2021–22 RIN response.<sup>18</sup> The high overhead rate reflected a materially lower level of activity sharing a fixed overhead costs base in 2021–22.<sup>19</sup> PWC stated its intention to update its proposed prices in its revised proposal using a new overhead rate derived from 2022–23 regulatory information notice (RIN) data. According to PWC, the more recent RIN data is a more representative level of activity and should result in a material reduction of the overhead rate.<sup>20</sup>

Our benchmark approach allows for a maximum overhead rate of 61% which is inclusive of a profit margin. This benchmark was based on Marsden Jacob’s review of efficient costs for ancillary network services in our previous decisions for the NSW, Tasmanian, Northern Territory and ACT distribution determinations.<sup>21</sup>

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<sup>15</sup> Jacana Energy, *Submission - 2024-29 Electricity Determination - Power and Water Corporation*, May 2023, p. 12.

<sup>16</sup> PWC, *Information request PWC IR#002 – Engagement of ANS – 20230222*, Received 24 February 2023.

<sup>17</sup> Jacana Energy, *Submission - 2024-29 Electricity Determination - Power and Water Corporation*, May 2023, p. 12.

<sup>18</sup> PWC, *Information request PWC IR#002 – Engagement of ANS – 20230222*, Received 24 February 2023.

<sup>19</sup> PWC, *Information request PWC IR#014 – ANS overheads – 20230524*, Received 31 May 2023.

<sup>20</sup> PWC, *Information request PWC IR#020 – ANS follow-up – 20230627*, Received 15 June 2023.

<sup>21</sup> See, for example, Marsden Jacob, *Review of Alternative Control Services*, September 2018, p. 7.

Our main consideration in this decision is the efficiency of PWC’s costs. We consider the 61% overhead rate as our benchmark for efficiency. This benchmark has been used in previous decisions and we consider that it is still appropriate and fit for purpose in this decision. We discussed the merits of using this overhead rate in our previous 2019–24 draft decision.<sup>22</sup>

As such, our draft decision is to not accept PWC’s proposed overhead rate but apply the maximum overhead rate of 61%. We consider this maximum overhead rate will enable PWC to recover at least its efficient costs in providing fee-based services. Furthermore PWC has explained that its indicative overhead rate for the revised proposal would be close to our benchmark (this is based on raw and unaudited June 2023 data and should not be considered final).<sup>23</sup>

#### **16.1.4.3 Other issues raised in submissions**

Jacana Energy was the only submission we received on PWC’s proposal for ancillary network services. In addition to its observation that prices increased significantly compared to the 2019–24 period, it also submitted that PWC’s after-hour charges and its re-energisation and de-energisation service prices required greater scrutiny.

##### **After hours charges for all non-reconnection services**

Our decision is to retain PWC’s after hours charges for all non-reconnection services.

Jacana Energy submitted that PWC did not provide enough justification on the after hours uplift of 23% for all non-reconnection services.<sup>24</sup> We note that our previous consultant, Marsden Jacob, had allowed for a 75% uplift for after hours labour rates given the higher cost of labour outside of business hours, which we have accepted in the past.<sup>25</sup>

We consider PWC’s proposed after-hours uplift of 23% to be acceptable as it is consistent with previous decisions where we have accepted a maximum after hours uplift of 75%.

##### **Re-energisation and de-energisation services**

Our decision is to retain the assumptions that PWC provided as part of its proposal for re-energisation and de-energisation services.

Jacana Energy submitted it is concerned about the increasing fee-based prices for re-energisation and de-energisation services, stating it receives constant feedback from customers that fees are excessive and not in line with other jurisdictions.<sup>26</sup> They also queried why the fees are the same for smart and legacy meters given that legacy meters incur greater labour costs compared to smart meters.

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<sup>22</sup> AER - Essential Energy 2019-24 - Draft decision - Attachment 15 - Alternative control services - November 2018, pg. 15.

<sup>23</sup> PWC, *Information request PWC IR#024 – Ancillary network services revised overheads – 20230720*, Received 27 July 2023.

<sup>24</sup> Jacana Energy, *Submission - 2024-29 Electricity Determination - Power and Water Corporation*, May 2023, p. 11.

<sup>25</sup> See, for example, Marsden Jacob, *Review of Alternative Control Services*, September 2018, p. 11.

<sup>26</sup> Jacana Energy, *Submission - 2024-29 Electricity Determination - Power and Water Corporation*, May 2023, p. 12.

PWC stated its view that it would be unfair to charge some customers more for meter-related services when the customer’s legacy meter has not been replaced with a smart meter.<sup>27</sup> However, it recognised that the costs involved in providing such services are less for smart meters compared to legacy meters. Its approach on developing fees for its re-energisation and de-energisation services relies on actual cost information to develop an estimated fee for each service that reflects the blended cost of providing the service to each meter type.<sup>28</sup>

We are satisfied with the response that PWC has provided.

## 16.2 Metering

We are responsible for the economic regulation of the regulated metering services provided by PWC. Metering services include the maintenance, reading, data services, and recovery of capital costs related to installing meters.

Metering assets are used to measure electrical energy flows at a point in the network to record consumption for the purposes of billing, and include:

- Type 1-4 (remote) meters – generally known as ‘smart’ meters
- Type 5 (interval) and type 6 (accumulation) meters – generally known as ‘legacy’ meters.

We apply price caps to PWC’s metering services for the 2024–29 period using a building block approach similar to the approach for standard control services. We derive price caps using standardised metering models, as well as the roll-forward and post-tax revenue models used for standard control services. Our draft decision on the forms of control and price control formulae for metering services is set out in Attachment 14 – Control Mechanisms.

In this section, we explain our draft decision for PWC on Type 1–6 metering services. Our draft decision on standard control services includes type 7 metering services.<sup>29</sup> Our draft decision on other regulated metering services, such as auxiliary metering services, is set out in section 16.1 on ancillary network services.

### **Australian Energy Market Commission (AEMC) review of metering services**

Unlike most jurisdictions where metering is contestable, PWC is the monopoly provider of most metering services in the Northern Territory, including smart metering services.

Jurisdictions where metering services are contestable will be subject to reforms resulting from the AEMC’s review of the regulatory framework for metering services.<sup>30</sup> PWC is not subject to the AEMC’s review. As such, our consideration of PWC’s metering services differs to the other jurisdictions for which we are simultaneously making distribution determinations.

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<sup>27</sup> PWC, *Information request PWC IR#015 – ANS cost build-up – 20230616*, Received 15 June 2023.

<sup>28</sup> PWC, *Information request PWC IR#015 – ANS cost build-up – 20230616*, Received 15 June 2023.

<sup>29</sup> These relate to unmetered connections with predictable energy consumption patterns.

<sup>30</sup> AEMC, *Final report – Review of the regulatory framework for metering services*, August 2023.

## 16.2.1 Draft decision

Our draft decision is to not accept PWC’s proposed prices for metering services for the following reasons:

- We do not accept the non-networks capital expenditure in relation to the Single Site Consolidation project because it does not reflect efficient costs (see section 16.2.4.1.1).
- We have substituted our forecasts operating expenditure to apply our draft decision labour price growth forecasts and inflation to the trend component of operating expenditure.
- We have substituted an alternative revenue calculated by applying our draft decision rate of return, inflation forecasts, and updated actual inflation consistent with standard control services.

We accept PWC’s proposed meter replacement capital expenditure. We also accept PWC’s approach to regulatory depreciation.

Our draft decision 2024–25 price caps for metering services are set out in Appendix B. For subsequent years the X factor is set at zero and the prices increase by CPI each year as per the applicable price control formula.

## 16.2.2 PWC’s proposal

PWC proposed to continue its rollout of smart meters for new connections and to replace end-of-life meters. This proposal includes the installation of 27,410 meters over the 2024–29 period. PWC forecast a balance of around 20,000 legacy meters (around 22%) remaining at the end of the period to be actioned in the 2029–34 period.<sup>31</sup>

PWC proposed an operating expenditure forecast that included:<sup>32</sup>

- Base operating expenditure of \$7.2 million per year in line with the actual spend in the 2019–24 period.
- Adjustments of -\$0.8 million per year reflecting the removal of one-off items from base operating expenditure.
- Allocation of step changes that apply across wider operating expenditure, including cyber security.
- A negative step change of -\$0.3 million over the 2024–29 period to account for efficiencies gained from increased remote meter reads, rather than manual reads.
- Output growth of 0.3% related to new customers.

PWC proposed to set price caps based on ‘billing meters’ instead of physical meters. This reflects that some customers in lightning prone areas have three single phase meters installed but are only billed for a single meter.<sup>33</sup> This means that under the current approach

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<sup>31</sup> PWC, 13.01 – *Metering attachment*, 31 January 2023, pp. iv–v.

<sup>32</sup> PWC, 13.01 – *Metering attachment*, 31 January 2023, pp. 18–19.

<sup>33</sup> PWC, 13.01 – *Metering attachment*, 31 January 2023, p. 6.

PWC is under-recovering revenues due to the misalignment between billing and physical meters.<sup>34</sup>

PWC also proposed to better align metering charges with the metering services, moving from three metering charge categories to four.<sup>35</sup> The current metering categories are: single phase, three phase, and metering dedicated current transformers (CTs) and voltage transformers (VTs) – remote read. The new proposed categories are single phase, three phase, low voltage CT, and high voltage metering. In doing this, prices have been set at new levels to better reflect the costs of the different types of meters.<sup>36</sup>

### 16.2.3 Assessment approach

As metering services are classified as an alternative control service, we have greater discretion under the NT NER in making our assessment compared to standard control services.<sup>37</sup>

Consistent with the approach adopted in the 2019–24 period and proposed by PWC for the 2024–29 period, we applied a limited building block approach<sup>38</sup> for our draft decision, using the AER's standardised models.

For our draft decision we had regard, where relevant, to:

- PWC's regulatory proposal and responses to information requests
- stakeholder feedback in response to our issues paper
- cost allocation principles, and particularly our Cost Allocation Methodology Guideline and the approved Cost Allocation Methodology for PWC
- consistency with our aspects of our draft decision on other regulated services, including capital expenditure projects in relation to standard control services, as well as the weighted average cost of capital (**WACC**) and labour price growth forecasts used for standard control services; and
- the wider regulatory context in relation to metering, including the current AEMC metering review applicable to other jurisdictions.

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<sup>34</sup> For example, if PWC was allowed to recover \$300, they would calculate price caps over 30 physical meters under their approach in the 2019–24 period, resulting in price caps of \$10 per meter. However, the meters are all arrangements where three single phase meters are billed as a single meter. PWC is capped at \$10 per meter, so can only recover a total \$100 for 10 billable meters, under-recovering \$200.

<sup>35</sup> PWC, *13.01 – Metering attachment*, 31 January 2023, p. 1.

<sup>36</sup> PWC, *13.01 – Metering attachment*, 31 January 2023, p. 24.

<sup>37</sup> NT NER, cl. 6.2.6(c).

<sup>38</sup> The building block model calculates the allowed revenue for a regulated business for each year of the regulatory control period. Where the revenue requirement = operating expenditure + depreciation + tax + (WACC x regulatory asset base). The building block model requires inputs/forecasts for each year of the regulatory control period. These include; the regulatory asset base, operating expenditure, capital expenditure, interest rates, inflation and incentive payments. Our metering building block model is 'limited' because it does not include any adjustment for incentive schemes.



## 16.2.4 Reasons for draft decision

### 16.2.4.1 Capital expenditure

Our draft decision is to not accept PWC’s forecast capital expenditure of \$41.49 million (\$2023–24). Our draft decision is to include our alternate estimate of \$36.67 million (\$2023–24). In particular we do not accept the non-networks capital expenditure in relation to the Single Site Consolidation project due to this expenditure not reflecting efficient costs.

**Table 16.3 Draft decision capital expenditure (\$million, 2023–24)**

Forecast capex	2024–25	2025–26	2026–27	2027–28	2028–29
Proposal	5.73	5.76	8.72	10.19	11.08
Draft decision	5.70	5.73	8.59	8.31	8.33

#### 16.2.4.1.1 Non-network expenditure

PWC’s capital expenditure proposal for metering includes non-network expenditure. This includes amounts related to ICT, property, fleet, and plant, and are aligned with the same expenditure in SCS.

As set out in our draft decision relating to SCS capital expenditure (Attachment 5), we do not accept proposed expenditure in relation to the single site consolidation project and have subsequently removed this expenditure in the cost build up for PWC’s metering services.

#### 16.2.4.1.2 Smart meter rollout

We consider PWC’s smart meter rollout target of 27,410 installations over the 2024–29 period is reasonable. This target reflects the challenges PWC may encounter due to:

- the geographical footprint of its network
- equipment resiliency issues resulting from weather and conditions across the network
- current complex legacy meters installed that require remediation prior to replacement.

The AEMC’s metering review and the targets it sets for other jurisdictions may also cause PWC to have trouble in procuring equipment and labour resources due to higher demand across the market.

PWC experienced delays in the earlier years of the 2019–24 replacement program due to information and communications technology (ICT) systems being insufficient to manage the increased scale of data as smart meters are rolled out. PWC have been able to adjust the latter years of the program to ensure the entirety of the program is delivered within the regulatory period now that the systems have been upgraded.

We note that PWC proposed to replace a similar amount of meters in the 2024–29 period (22,300) as they did in the 2019–24 period (21,200). This does not reflect the increased rate of installation towards the end of the 2019–24 period to make up for the slow start. While we consider the proposed rollout to be reasonable and acknowledge that PWC have a number of unregulated meters that need to be replaced with smart meters as well, the AEMC metering review has highlighted that there is a shared appetite across stakeholders for an



expedited rollout where possible. An accelerated rollout was also supported by Jacana Energy in its submission.<sup>39</sup>

We encourage PWC to consider the possibility of maintaining or increasing the current increased installation rate of smart meters experienced toward the end of the 2019–24 period. Where this is possible, we recommend PWC engage with stakeholders on the potential price impacts. This would lead to a quicker rollout and earlier realisation of the benefits of widespread smart meters. It would also align better with the pace of the rollout in other jurisdictions as a result of the AEMC’s metering review.

#### 16.2.4.1.3 Connections

We consider that the rate of new connections of around 0.6% is appropriate and reflects housing supply data available from the Northern Territory Government.<sup>40</sup> We therefore consider the related expenditure to be reasonable.

#### 16.2.4.2 Operating Expenditure

Our draft decision is to not accept PWC’s forecast operating expenditure of \$33.51 million (\$2023–24). Our draft decision is to include our alternate estimate of \$33.37 million (\$2023–24), which applies our draft decision labour price growth forecasts and inflation to the trend component of operating expenditure.

**Table 16.4 Draft decision operating expenditure (\$million, 2023–24)**

Forecast opex	2024–25	2025–26	2026–27	2027–28	2028–29
Proposal	6.50	6.62	6.73	6.80	6.86
Draft decision	6.47	6.58	6.70	6.78	6.84

We consider PWC’s base operating expenditure and adjustments are reasonable. We consider it is appropriate to reconsider the base operating expenditure in the final decision, where we can consider the most up-to-date actual operating expenditure in the 2022–23 year to best reflect any efficiencies being achieved in relation to the smart meter rollout.

##### 16.2.4.2.1 Step Changes

We consider the step changes proposed by PWC to be appropriate. This is consistent with our draft decision on standard control services for those step changes that are allocated across both standard control services and alternative control services. Our draft decision on SCS operating expenditure (Attachment 6) provides our consideration of these step changes.

PWC included in their models -\$1.8 million and -\$0.4 million (\$2023–24) in step changes in relation to meter reads and special meter reads, respectively.<sup>41</sup> We consider these amounts appropriately reflect the per unit cost of these services, and the forecast metering churn. It

<sup>39</sup> Jacana Energy, *Submission – 2024–29 electricity determination – Power and Water Corporation*, May 2023, pp. 12–13.

<sup>40</sup> <https://treasury.nt.gov.au/df/economic-group/economic-briefs/building-approvals>

<sup>41</sup> We note these step change figures differ from the -\$0.3 million PWC included in its proposal (and noted in section 16.1.2). As the -\$1.8 million and -\$0.4 million are the inputs that determines PWC’s proposed prices, these are the figures we consider here.

also reflects that over time the cost of meter reading will become more expensive for those manually-read meters that remain.

**16.2.4.2.2 Trend**

We consider the output trend to be appropriate, being customer growth applied at a 100% weighting.

We will apply our draft decision labour price growth forecasts compared to PWC’s proposed forecasts. We consider it appropriate to reconsider the labour price growth forecast in the final decision, reflecting the most current data at the time.

**16.2.4.3 Revenue requirement and recovery**

Our draft decision is to not accept PWC’s smoothed revenue of \$71.08 million (\$nominal). Our draft decision is to include our alternate smoothed revenue of \$70.08 million (\$nominal).

**Table 16.5 Draft decision smoothed revenue (\$million, nominal)**

Smoothed revenue	2024–25	2025–26	2026–27	2027–28	2028–29
Proposal	11.91	12.97	14.11	15.36	16.72
Draft decision	13.02	13.50	14.00	14.51	15.04

**16.2.4.3.1 Inputs**

In addition to the adjustments addressed above, we updated the metering post-tax revenue, expenditure, and pricing models to include our draft decision inputs relating to the rate of change, inflation, and other related data. These updates are listed in each model.

**16.2.4.3.2 Price path**

Our draft decision is to apply a flat real price path. This sets X factors at 0% for years 2–5 of the 2024–29 period, meaning that prices will increase year-on-year by CPI as per the control mechanism formula.

**16.2.4.3.3 Price caps**

We consider PWC’s amendments to how price caps are calculated across customers are appropriate. This includes the better differentiation of charges for LV and HV customers, as well as the correction of historical errors where price cap calculations used physical meters instead of billable meters, creating under-recoveries. PWC’s amendments also account for a number of generators that historically were not charged for metering services erroneously.

These changes will increase prices for most customers. However, this change will also mean PWC’s charges are more cost reflective and will enable PWC to recover their efficient costs moving forward. We encourage PWC to engage early with customers on the price increases, especially those low voltage CT and high voltage customers that will experience the largest increases.

We note that the prices used in metering models for 2023–24 are not consistent with those approved by the AER. We have maintained this approach from PWC’s proposal as it establishes a new base price for the services based on the new offerings. The approach also

reflects the more cost-reflective prices that allows PWC to recover efficient costs and account for the historical 30% overstatement of meters and lack of historical charges for generators. For transparency, we have included the 2023–24 base prices at Table 16.6 for comparison.

Table 7 shows the AER approved prices for 2023–24 for the 3 tariffs that existed in the 2019–24 period. It also shows PWC’s recalibrated 2023–24 prices for the purpose of calculating 2024–25 prices across the 4 tariffs that will exist in the 2024–29 period. For clarity, the 2023–24 recalibrated prices are not charged to customers and are only used in the PTRM to calculate the 2024–25 prices.

**Table 16.6 2023–24 base prices (\$nominal)**

Metering tariff	2023–24 approved price <sup>42</sup>	2023–24 recalibrated price
Single phase meter	80.17	82.25
Three phase meter	88.25	108.98
Metering dedicated CTs and VTs – remote read	149.48	NA
Low voltage CT	NA	434.89
High voltage	NA	1500.45

The recalibrated 2023–24 prices are escalated by forecast inflation of 2.80% and the first year increase of 46.62% to achieve the 2024–25 draft decision revenue requirement. The first year increase accounts for the changes to tariffs, the historical quantity errors, and the costs of the smart meter rollout. The revenue requirement is recovered through the draft decision price caps, which are provided in Appendix B.

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<sup>42</sup> PWC, 2023–24 – ACS pricing model, 30 March 2023.

## A Ancillary network services prices

**Table A.1 X factors for each year of the 2024–29 regulatory control period for ancillary network services, draft decision (per cent)**

	2025–26	2026–27	2027–28	2028–29
X factor	-1.2789%	-1.0665%	-1.1772%	-1.2082%

Note: We do not apply an X factor for 2024–25 because we set 2024–25 ancillary network services prices in this determination. To be clear, the labour escalators in this table are operating as de facto X factors. Therefore, positive labour escalators are represented as negative in this table and vice versa. X factors in this table are rounded to 4 decimal places but distributors should use the raw X factors in the draft decision model.

**Table A.2 Fee-based ancillary network service prices for 2024–25, draft decision (\$2024–25)**

Service	Service category	Initial proposal	Draft decision
Provision of 3 phase service	Connection Services	\$2,736.54	\$2,634.04
Standard temporary builder's connection	Connection Services	\$1,174.65	\$1,121.52
Class 1 & 2 PV service	Connection Services	\$216.80	\$179.42
Class 3 PV Assessment	Connection Services	\$2,327.34	\$2,064.38
Temporary disconnection and reconnection - no dismantling	De-energisation / Re-energisation	\$704.43	\$663.17
Temporary disconnection and reconnection - physical dismantling	De-energisation / Re-energisation	\$2,166.56	\$2,081.24
Complex disconnection	De-energisation / Re-energisation	\$802.93	\$761.00
Disconnection (and final read)	De-energisation / Re-energisation	\$116.32	\$94.47
Reconnection	De-energisation / Re-energisation	\$118.99	\$96.94
Reconnection - after hours	De-energisation / Re-energisation	\$749.31	\$735.66
Wasted visit fee	Other	\$366.12	\$321.94

Service	Service category	Initial proposal	Draft decision
After Hours - non reconnections - uplift 1.23 x business hours charge	Other	NA	NA
Historical data requests	Non Standard Data Services	\$278.68	\$177.72
Standing data requests	Non Standard Data Services	\$92.89	\$59.24
Customer transfers	Non Standard Data Services	\$371.58	\$236.96
Network tariff change request	Non Standard Data Services	\$92.89	\$59.24
Installation of Minor Apparatus	Miscellaneous services	\$942.19	\$788.08
Special meter test	Meter Servicing (Fee based)	\$592.28	\$556.70
Exchange or replace meter – three phase	Meter Servicing (Fee based)	\$1,184.99	\$1,068.26
Exchange or replace meter - single phase	Meter Servicing (Fee based)	\$796.33	\$720.51
Relocation of meter	Meter Servicing (Fee based)	\$617.06	\$580.74
Remove meter	Meter Servicing (Fee based)	\$617.06	\$580.74
General meter inspection	Meter Servicing (Fee based)	\$294.90	\$268.28
Special meter read - no appointment	Meter Servicing (Fee based)	\$83.04	\$63.58
Special meter read - appointment	Meter Servicing (Fee based)	\$170.14	\$139.92
Meter program change	Meter Servicing (Fee based)	\$344.46	\$316.35
Install modem on smart ready meter	Meter Servicing (Fee based)	\$483.73	\$438.83
Prepayment Vending Charge	Meter Servicing (Fee based)	\$0.63	\$0.66
Prepayment Meter Support Charge	Meter Servicing (Fee based)	\$154.87	\$139.92

**Table A.3 Quoted service hourly labour rates for 2024–25, draft decision (\$2024–25)**

	Initial proposal (business hours)	Draft decision (business hours)	Initial proposal (after hours)	Draft decision (after hours)
Internal - Tech	\$247.82	\$240.35	\$304.82	\$304.82
Internal - Admin	\$185.79	\$118.48	\$228.52	\$207.34
Internal - Comms	\$247.82	\$240.35	\$304.82	\$304.82
Internal - Engineering	\$295.86	\$263.29	\$363.91	\$363.91
Internal - Vending Fee	\$0.63	\$0.63		

**Table A.4 Non-exhaustive list of ancillary network services provided on a quotation basis**

Description of service	Description of service
Design related services	Performance of a statutory right (access prevented)
Negotiated Connections (and Standard Connections)	Inspection and auditing services
Connection application related services	Provision of network related training to third parties
Access permits, oversights and facilitation	Authorisation and approval of third party service providers' design, work and materials
Sale of approved materials or equipment	Security lights services
Notices of arrangement and completion notices	Non-standard reporting services
Network related property services	Services provided for retailer of last resort event
Network safety services	Rectification of illegal connections service
Network tariff change request	Customer Initiated network asset relocations / rearrangements
Customer requested planned interruption	Annual prepayment meter licensing fee



## B Metering price caps

**Table B.1 X factors for each year of the 2024–29 regulatory control period for legacy metering services, draft decision**

	2025–26	2026–27	2027–28	2028–29
X factor	0%	0%	0%	0%

Note: We apply 0% X-factors as we set a real flat price path for years 2–5 to reduce volatility of prices.

**Table B.2 Draft decision metering price caps (\$nominal)**

Metering tariff	2024–25 price cap
Single phase meter	\$123.97
Three phase meter	\$164.25
Low voltage CT	\$655.47
High voltage	\$2261.49



## Shortened forms

Term	Definition
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
capex	capital expenditure
CCP26	Consumer Challenge Panel, sub-panel 26
CPI	consumer price index
F&A	framework and approach
LED	light-emitting diode
NEM	national electricity market
NER	national electricity rules
NMI	national meter identifier
opex	operating expenditure
PE cell	photoelectric cell
RBA	Reserve Bank of Australia
RIN	regulatory information notice
WACC	weighted average cost of capital

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