

Draft Decision

Ergon Energy Electricity Distribution Determination 2025 to 2030

(1 July 2025 to 30 June 2030)

Attachment 16

Alternative control services

September 2024

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16 Alternative control services

This attachment sets out our draft decision on prices Ergon Energy is allowed to charge customers for the provision of the following alternative control services: ancillary network services (ANS) and public lighting services.

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.

In the current period, metering services were also classified as alternative control services. However, our draft decision accepts Ergon Energy’s proposal to reclassify them as standard control services (see Attachment 13). Our draft decision on metering services is set out in Attachment 20.

Note on our draft decision price lists

Unlike previous distribution determinations, we have not included our draft decision price lists for ancillary network services and public lighting services in this document. Rather, our draft decision price lists are within the ANS model and public lighting pricing models, respectively, that we published with this draft decision:

- AER Draft Decision - Ergon - 11.06 - ACS Ancillary services model - January 2024 (Revised 12 August 2024) - PUBLIC
- AER Draft Decision - Ergon - 11.02 - ACS Public lighting pricing model - January 2024 - public
- AER Draft Decision - Ergon - 11.05 - ACS Smart control pricing model - January 2024 - public

In this attachment, we point to these models, including cell references, when discussing our draft decision price lists.

We have made this change to avoid transcription errors that can occur when replicating prices from the model in the document. We have been conscious to make the presentation of the price lists in the models easily accessible for stakeholders. As this is the first time we have taken this approach, we are open to receiving feedback from stakeholders on the presentation of these price lists and any future improvements.

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.¹

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

We determine price caps for fee-based services for the 2025–30 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

Our draft decision does not accept Ergon Energy's proposed prices for ancillary network services although we consider Ergon Energy's proposal is largely reasonable.

16.1.1.1 Fee-based and quoted services

Our draft decision does not accept Ergon Energy's proposal as submitted. Based on our analysis and updated inputs, our draft decision is to:

- accept Ergon Energy's proposed fee-based and quoted services labour rates for the following labour categories as they are below our maximum reasonable labour rates:
 - Technical service person (business hours and after hours)
 - Supervisor (business hours and after hours)
 - Para professional (business hours and after hours)
 - 50% TSP/Contractor mix (business hours and after hours)
 - 20% TSP/Contractor mix (business hours and after hours)
 - Administrative (after hours)
 - Power worker (Quoted) (business hours and after hours)
 - Technical service person (Quoted) (business hours and after hours)
 - Elec sys designer (Quoted) (business hours and after hours)
 - Supervisor (Quoted) (business hours and after hours)
 - Para professional (Quoted) (business hours and after hours)
 - Apprentice (Quoted) (business hours and after hours)

¹ See AER, *Final framework and approach – Ergon and Energex 2025-30 - July 2023*, p.8. 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.

- Professional & Managerial (Quoted) (after hours)
- System Operator (Quoted) (after hours)
- not accept the following labour rates as they are above our maximum reasonable benchmark labour rates. As a result, we have substituted them with our benchmark labour rates:
 - Administrative (business hours)
 - Administrative (Quoted) (business hours and after hours)
 - Professional & managerial (Quoted) (business hours)
 - System operator (Quoted) (business hours)
- not accept Ergon Energy’s proposal to change their service classification for Supply Abolishment Services from alternative control services to standard control services.
- accept Ergon Energy’s proposed approach to update its prices for security lighting by applying CPI and X factor to its approved prices for the 2024-25 year.
- substitute Ergon Energy’s proposed year one (2025–26) prices for fee-based services with our draft decision price caps for 2025–26 (see section 16.1.4.2 and our draft decision ANS model)²
- substitute Ergon Energy’s proposed X factors with our draft decision labour price growth forecasts (see our draft decision ANS model).³

16.1.1.2 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, 2025–26. For each year thereafter, we adjust the price caps and maximum labour rates for inflation, the X factor⁴, 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 derived the X factor by averaging wage price index growth forecasts from Deloitte (provided by the AER) and BIS Oxford Economics (provided by the distributor).⁵

² AER, *AER Draft Decision - Ergon - 11.06 - ACS Ancillary services model - January 2024 (Revised 12 August 2024)* – Public, Table 3 in excel tab ‘AER Draft Decision - Services’.

³ AER, *AER Draft Decision - Ergon - 11.06 - ACS Ancillary services model - January 2024 (Revised 12 August 2024)* – Public, Table 1 in excel tab ‘AER Draft Decision - Labour’.

⁴ Under the CPI–X framework, the X factor can be a measure of the real rate of change in prices from one year to the next. For ancillary network services, the X factor is the change in wage prices given that labour is the primary cost input for providing these services.

⁵ For more detail on the reasons for this decision, see the discussion in section 6.4.2 of Attachment 6 – Operating expenditure.

Our draft decision X factors for ancillary network services are set out in our draft decision ANS model.⁶

16.1.2 Ergon Energy’s proposal

For the 2025–30 period, Ergon Energy largely proposed to make the following changes to their fee-based services compared to the 2020–25 period:

- Consolidation of services⁷
 - Ergon Energy proposed to amalgamate the two feeder type permutations (Urban/Short Rural and Long Rural/Isolated) and discontinued services which had very little uptake over the past 3 years. This reduced Ergon Energy’s service offering from 310 to 137 service permutations.⁸
- Health and safety requirements⁹
 - Ergon Energy proposed to increase the number of staff from one to two persons per crew for jobs deemed ‘high risk’ such as certain sensitive jobs involving non-payment services for all disconnects and reconnects for debt services.
 - This is driven by an increase in workplace related violence and aggression against Ergon Energy crew and contractors. In response to our information request, Ergon Energy clarified that only 1 crew member will be sent for Meter reading services instead of two crew members as previously proposed.¹⁰
- Updated contractor rates
 - Due to the shortage of reputable and qualified external service providers and decline in meter reading services due to the uptake of smart meters, Ergon Energy finalised new contract extensions with their existing external service providers.¹¹
 - Ergon Energy stated it is commercially appropriate to leverage extensions with existing service providers rather than return to an open market with the likelihood of growth in this market being extremely low.¹²
- Updated travel time
 - Ergon Energy estimated that the average travel time for their crews to get on site would be 23 minutes for the 2025–30 period for both Urban/Short Rural and Long

⁶ AER, *AER Draft Decision - Ergon - 11.06 - ACS Ancillary services model - January 2024 (Revised 12 August 2024)* – Public, Table 1 in excel tab ‘AER Draft Decision - Labour’.

⁷ Ergon Energy, *Attachment 11.09, ACS Explanatory Statement*, January 2024, p. 33

⁸ Ergon Energy, *Attachment 11.09, ACS Explanatory Statement*, January 2024, p. 33

⁹ Ergon Energy, *Attachment 11.09, ACS Explanatory Statement*, January 2024, p. 33 and 34

¹⁰ Ergon Energy, *IR#056 – Increase in prices of fee-based services*, received on 19th July 2024.

¹¹ Ergon Energy, *Attachment 11.09, ACS Explanatory Statement*, January 2024, p. 34

¹² Ergon Energy, *Information Request IR#060 – Increase in prices of fee-based services*, received on 12th August 2024.

Rural/Isolated. Under the current approach, Ergon Energy estimated 20 minutes for Urban/Short Rural and 120 minutes for Long Rural/Isolated.¹³

Ergon Energy also proposed to introduce two new fee-based services:¹⁴

- Remote De Energisation: this is to accommodate the changing work environment.
- Property Searches (including complex property searches): these services are currently charged as a quoted service. Ergon Energy stated changing these services to fee-based service will reduce administration costs.

Ergon Energy proposed six labour categories for fee-based services and nine labour categories for quoted services to reflect the different types of labour it uses in providing ancillary network services (see Table 16.1). Ergon Energy also proposed two new Technical service/contractor mix labour categories:¹⁵

- 50%/50% Technical service/contractor
- 80%/20% Technical service/contractor

Table 16.2 in section 16.1.4.1 contain Ergon Energy’s proposed labour rates for business hours and after hours, respectively.¹⁶

Ergon Energy also proposed to continue to apply a 6% margin in its prices for its quoted services, consistent with the 2020–25 period.¹⁷

Ergon Energy derived its proposed labour rates for the 2025–30 period by applying unadjusted overhead rates as per their Cost Allocation Method (CAM) to quoted services.¹⁸ Ergon Energy proposed a 47% overhead rate for fee-based services. However, Ergon Energy proposed a 73.5% overhead rate for quoted services as they stated their quoted services do not follow the same constraints as fee-based services.¹⁹

Ergon Energy followed a cost build up approach by aggregating direct costs, materials, vehicle costs and indirect costs to derive the labour rates.²⁰

In its response to one of our information requests, Ergon Energy also proposed to change their service classification for Supply Abolishment Services from alternative control services to standard control services.²¹

¹³ Ergon Energy, *Attachment 11.09, ACS Explanatory Statement*, January 2024, p.33.

¹⁴ Ergon Energy, *Attachment 11.09, ACS Explanatory Statement*, January 2024, p. 34

¹⁵ Ergon Energy, *Attachment 11.06, ACS Ancillary Services Model (revised 12 August 2024)*

¹⁶ 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).

¹⁷ Ergon Energy, *Attachment 11.09, ACS Explanatory Statement*, January 2024, p. 36

¹⁸ Ergon Energy, *Attachment 11.09, ACS Explanatory Statement*, January 2024, p. 36

¹⁹ Ergon Energy, *Attachment 11.09, ACS Explanatory Statement*, January 2024, p. 36

²⁰ Ergon Energy, *Attachment 11.06, ACS Ancillary Services Model (revised 12 August 2024)*

²¹ Ergon Energy, *Information request IR#34, Crew size and Vehicle cost*, received on 06th June 2024.

Ergon Energy proposed to maintain and operate existing security lights that were introduced in the 2020–25 period. For the 2025–30 period, Ergon Energy proposed to update its prices by applying a CPI-X escalation to its approved prices for the 2024–25 year.²²

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 largely focuses on comparing Ergon Energy's proposed labour rates against maximum total labour rates, which we consider efficient.

Where Ergon Energy'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 consider relevant stakeholder feedback raised throughout the consultation process and benchmarked Ergon Energy's proposed ancillary network services prices against its prices for the 2020–25 period and the prices of other distributors.

We seek further information from Ergon Energy to reconcile particular cost drivers and often benchmark these against other distributors.

We also make further adjustments to Ergon Energy's ancillary network services prices where we consider it appropriate to do so.

16.1.4 Reasons for draft decision

As stated above, we did not accept aspects of Ergon Energy's proposal, namely a number of proposed labour rates, although we consider Ergon Energy's proposal is largely reasonable.

Section 16.1.4.1 discusses the maximum labour rates we consider are appropriate for determining whether Ergon Energy's proposed labour rates are efficient.

Section 16.1.4.2 sets out how we assessed Ergon Energy's proposed fee-based prices and, where appropriate, adjusted them to derive our draft decision prices for 2025–26. 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.

16.1.4.1 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 2020–25 period, we continue to categorise Ergon Energy's proposed labour rates into six different categories. This is on the basis that although distributors use

²² Ergon Energy, *Attachment 11.09 – ACS Explanatory Statement*, January 2024, p. 37

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. For Queensland, we also benchmark a sixth category: project manager. This is consistent with our previous distribution determinations for Queensland.²³

This method is a continuation of Marsden Jacob’s previous reports for the AER in relation to labour rates and ancillary network services.²⁴

In assessing the reasonableness of the proposed labour rates, we:

- derived salary ranges for our labour categories using Queensland 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.

Compared to our 2020–25 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.
- uplifting the Engineer rate by 20% to obtain the Senior engineer rate.
- using Hays 2022–23 data (instead of the most recent 2024–25 data) for technical specialists and field worker labour categories.
- use of real inflation (CPI) and X factors to convert labour rates and the vehicle allowance to \$2025–26.

²³ See, for example, AER, *Final decision – Ergon Energy distribution determination 2019-24 - Attachment 15 - Alternative control services*, June 2020, p. 9

²⁴ 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.

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 June 2024, Hays released its 2024–25 salary data. Like the Hays 2023–24 Guide, there were some significant changes in its reporting when compared to the Hays 2022–23 Guide, with the report no longer including wage data for the technical specialist and field worker roles. 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, project manager and engineer labour categories, we used the Hays 2024–25 data as the relevant rates are still available.

In addition, we note that the Hays 2024–25 data is based on a 38-hour week.²⁵ 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 Ergon Energy draws its labour.

Determining labour rates in \$2025–26

Finally, we applied one or two-year's worth of real inflation and X factors to convert the 2022–23 and 2024–25 labour rates (respectively, depending on which was applicable) to \$2025–26. To convert \$2022–23 nominal rates into \$2025–26 nominal terms (where relevant), we used actual CPI consistent with the method applied during annual pricing proposals and consistent with our draft decision on control mechanisms.²⁶ To convert \$2024–25 nominal rates into \$2025–26 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 for our final decision.

²⁵ *Hays Salary Guide FY24/25 Australia and New Zealand*, p. 2

²⁶ AER, *Draft decision – Ergon Energy distribution determination 2025–30 - Attachment 14 - Control mechanisms*, September 2024

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 \$24.57.²⁷

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 Ergon Energy’s proposed prices for business hours.

Table 16.2 contains the same information for after hours.

Table 16.1 AER maximum benchmark and Ergon Energy proposed hourly labour rates for 2025–26 (business hours, including on-costs and overheads, \$2025–26)

Ergon Labour Category	AER Benchmark category	AER maximum labour rate	Ergon proposed labour rate
Administrative	Admin	\$104.22	\$145.80
Technical service person	Technical specialist	\$256.92	\$191.30
Supervisor	Project manager	\$260.54	\$218.98
Para professional	Technical specialist	\$256.92	\$197.01
50% TSP/Contractor mix	Technical specialist	\$128.46	\$89.55
20% TSP/Contractor mix	Technical specialist	\$51.38	\$34.36
Administrative (Quoted)	Admin	\$104.22	\$170.72
Professional & managerial (Quoted)	Project manager	\$260.54	\$262.62
Power worker (Quoted)	Field worker	\$235.61	\$198.60
Technical service person (Quoted)	Technical specialist	\$256.92	\$224.00
Elec sys designer (Quoted)	Engineer	\$260.54	\$199.37
Supervisor (Quoted)	Project manager	\$260.54	\$256.40
Para professional (Quoted)	Technical specialist	\$256.92	\$230.69
Apprentice (Quoted)	Field worker	\$235.61	\$145.26

²⁷ See for example AER, *Draft decision - Ausgrid distribution determination 2024-29 - Attachment 16 - Alternative control services*, September 2023, p. 10; Marsden Jacob Associates, *Review of Victorian distributors Alternative Control Services*, June 2020, p. 24.

Ergon Labour Category	AER Benchmark category	AER maximum labour rate	Ergon proposed labour rate
System operator (Quoted)	Senior engineer	\$312.65	\$316.60

Source: AER analysis.

Table 16.2 AER maximum benchmark and Ergon Energy proposed hourly labour rates for 2025–26 (after hours, including on-costs and overheads, \$2025–26)

Ergon Energy Labour Category	AER Benchmark Category	AER maximum labour rate	Ergon Energy proposed labour rate
Administrative	Admin	\$182.38	\$169.14
Technical service person	Technical specialist	\$449.61	\$196.54
Supervisor	Project manager	\$455.94	\$246.63
Para Professional	Technical specialist	\$449.61	\$234.61
50% TSP/Contractor mix	Technical specialist	\$224.80	\$92.00
20% TSP/Contractor mix	Technical specialist	\$89.92	\$35.30
Administrative (Quoted)	Admin	\$182.38	\$198.05
Professional & managerial (Quoted)	Project manager	\$455.94	\$323.50
Power worker (Quoted)	Field worker	\$412.32	\$193.67
Technical service person (Quoted)	Technical specialist	\$449.61	\$230.13
Elec sys designer (Quoted)	Engineer	\$455.94	\$246.33
Supervisor (Quoted)	Project manager	\$455.94	\$288.79
Para professional (Quoted)	Technical specialist	\$449.61	\$274.71
Apprentice (Quoted)	Field worker	\$412.32	\$148.52
System operator (Quoted)	Senior engineer	\$547.13	\$428.95

Source: AER analysis.

Outcomes of our benchmarking

As a result of our benchmarking, we do not accept Ergon Energy's proposed labour rates for the following labour categories and have substituted them with our maximum labour rates:

- Administrative (business hours)
- Administrative (Quoted) (business hours and after hours)
- Professional & managerial (Quoted) (business hours)
- System operator (Quoted) (business hours)

Our draft decision ANS model sets out our draft decision on the labour rates Ergon Energy can utilise in the provision of quoted services.²⁸

16.1.4.2 Fee-based services

Our draft decision is to not accept Ergon Energy’s proposed prices for fee-based services. We substitute Ergon Energy’s proposed year one (2025–26) prices for fee-based services with our draft decision price caps for 2025–26 to reflect our draft decision CPI and X factors (see section 16.1.4.1).

As we detailed in section 16.1.4.1, we adjusted Ergon Energy’s proposed labour rates to reflect the outcome of our assessment of efficient labour rates.

We accept the following proposed inputs affecting these fee-based services:

- travel time
- contractor costs
- increase in crew size from one person to 2-crew members for high-risk services.

Applying our draft decision inputs, we observe an average price increase of 10.59%, compared to Ergon Energy’s proposed 9.17% increase, across all Ergon Energy’s proposed fee-based services in 2025–26 compared with their 2024–25 equivalents.

These especially impact some of Ergon Energy’s meter services, connection service upgrades, and disconnection/reconnection services. We discuss our assessment of these services in the sub-section below.

Our benchmarking analysis shows the prices of Ergon Energy’s most commonly requested fee-based services are within the range and often lower priced when compared to similar services provided by other electricity distributors.

Our draft decision ANS model sets out our draft decision prices for Ergon Energy’s fee-based services incorporating these adjustments.²⁹

We also note that under Schedule 8 of the *Electricity Regulation 2006 (Qld)*, the following ancillary network services are price-capped, and may take precedence over our draft decision prices:³⁰

- Special meter reads and meter tests
- Disconnection and reconnection of supply of electricity to premises in some circumstances, both during business hours and outside business hours,
- Some temporary connections of a supply of electricity

²⁸ AER, *AER Draft Decision - Ergon - 11.06 - ACS Ancillary services model - January 2024 (Revised 12 August 2024)* – Public, Table 2 in excel tab ‘AER Draft Decision - Labour’.

²⁹ AER, *AER Draft Decision - Ergon - 11.06 - ACS Ancillary services model - January 2024 (Revised 12 August 2024)* – Public, Table 3 in excel tab ‘AER Draft Decision - Services’.

³⁰ Ergon Energy, *Attachment 11.09, ACS Explanatory Statement*, January 2024, p. 32

- Some services for premises that are connected to a long rural feeder or an isolated feeder

In the following sub-sections, we discuss our draft decision and reasons on several fee-based services, where we observed large price increases driven by different cost drivers besides labour rates.

Meter services, connection upgrades and disconnection/reconnection services

We consider Ergon Energy’s proposal to increase the prices for meter services, connection service upgrades, and disconnection/reconnection services reasonable. We consider Ergon Energy provided sufficient evidence to justify its proposed price increases. Our analysis also indicates Ergon Energy’s proposed prices for most of these fee-based services benchmarked well compared to other distributors.

Ergon Energy stated the price increases to these fee-based services are due to the following factors:

- travel time – modest increase in travel time from 20 to 23 minutes for Urban/Short Rural permutations and significant decrease from 120 to 23 minutes for Long Rural/Isolated permutations.
- contractor costs - increase in contractor costs due to less competition in the market
- crew size - increase in crew size from one person to 2 persons for all non-payment services due to increased workplace related violence and aggression.

We consider Ergon Energy’s proposed travel time reasonable, as it is a modest increase of 3 minutes from 20 to 23 minutes for Urban/Short Rural permutations and significant decrease from 120 minutes to 23 minutes for Long Rural/Isolated permutations.

We consider Ergon Energy provided sufficient evidence to support its proposed increase in its contractor costs. Ergon Energy stated that there is a shortage of reputable and qualified external service providers and hence, the lack of opportunities in a declining market has led to substantial increases in contractor rates being negotiated for the forthcoming regulatory control period.³¹

The shortage of service providers is driven by the diseconomies of scale resulting from the smart meter rollout, impacting their viability to remain profitable.

Therefore, Ergon Energy exercised the option to extend its contract with some of its existing external service providers to mitigate further contractor price increases.³² Ergon Energy also provided a breakdown of its renegotiated contractor costs in response to one of our information requests.³³

On balance, our analysis showed Ergon Energy’s increased contractor costs for meter services, connection upgrades and disconnection/reconnection services reasonable.

³¹ Ergon Energy, *Attachment 11.09 – ACS Explanatory Statement, January 2024*, p. 34

³² Ergon Energy, *Attachment 11.09 – ACS Explanatory Statement, January 2024*, p. 34

³³ Ergon Energy, *Information Request IR#060 – Increase in prices of fee-based services and overhead rates*, received 12 August 2024.

For all non-payment fee-based services, Ergon Energy has increased the crew size from one person to 2-crew members. Ergon Energy observed an increase in workplace related violence and aggression to its employees and contractors during the 2020–25 period.³⁴ In response, Ergon Energy updated its health and safety policy to deploy an extra worker to all services involving non-payment. Ergon Energy considered this approach cost reflective and efficient as it allocates the cost to the customer group causing this cost.³⁵

We consider Ergon Energy’s proposal to deploy an extra field worker to all non-payment services reasonable. In its response to one of our information requests, Ergon Energy provided the data demonstrating an increase in aggression from customers and members of the public. Ergon Energy stated the majority of these incidents are related to non-payment disconnection and reconnections services.³⁶

We also observed Ergon Energy’s proposed prices for non-payment services benchmark well against similar services offered by other distributors. For example, Evoenergy uses a 2-person crew for its “De-energise premises for debt non-payment” fee-based service for \$200.85 (\$2025-26).³⁷ In comparison, Ergon Energy proposed a 2-person contractor/technical service person crew at \$216.79 (\$2025-26) for its disconnection due to non-payment service.

16.1.4.3 Service reclassification for supply abolishment services

We do not consider Ergon Energy’s proposed change to its supply abolishment service from alternative control services to standard control services is reasonable.

In its response to one of our information requests, Ergon Energy proposed to change their service classification for its Supply Abolishment Services from alternative control services to standard control services. Ergon Energy stated it is unable to recover the cost of the service in the following cases:³⁸

- there has been an increase in unsafe situations becoming urgent, often requiring after hours call outs, which utilises overtime and therefore inflating the cost to perform the service
- end customers are unable to be located, therefore the retailer is unable to recover supply abolishment costs.

Ergon Energy also stated supply abolishment services are considered to be a part of the safe management of a network as it is the final step of the basic connection lifecycle. Therefore, Ergon Energy considered supply abolishment services should be a standard control service.

However, we note there is a clear single customer creating this service, rather than it being a shared network service. We consider the network/retailer should be incentivised to pursue cost recovery from the customer benefiting from the service (or causing the costs of the service). Additionally, other distributors offer supply abolishment services as an alternative

³⁴ Ergon Energy, *Information Request IR#056– Increase in prices of fee-based services*, received 19 July 2024.

³⁵ Ergon Energy, *Information Request IR#034 – Crew size and Vehicle Cost*, received 06 June 2024.

³⁶ Ergon Energy, *Information Request IR#034 – Crew size and Vehicle Cost*, received 06 June 2024.

³⁷ AER, *Final Decision – Evoenergy - ACS cost build up model – November 2023_Public*

³⁸ Ergon Energy, *Information Request IR#034 – Crew size and Vehicle Cost*, received 06 June 2024

control service. Therefore, we consider supply abolishment should be classified as an alternative control service.

This is also discussed in Attachment 13 – Classification of services.

16.1.4.4 Security lighting services

We consider Ergon Energy’s proposed changes to its security lighting services reasonable.

Ergon Energy proposed to cease providing and installing its service offering for security lights but continue to maintain and operate security lights for existing customers. We consider these proposed changes are reasonable as there has been a decline in customer demand for security lights since 2015.³⁹

Ergon Energy also proposed to set its prices for 2025-26 by escalating its current prices using the CPI-X approach consistent with the price cap form of control in both the 2020-25 period and the forthcoming 2025-30 period.⁴⁰ We consider this reasonable as it will reflect the efficient costs we approved for the 2020-25 period and follows a consistent price path over the two regulatory periods making it easier for stakeholders to understand.

16.2 Public lighting

Public lighting services include the provision, construction and maintenance of public lighting assets. This definition includes new technologies such as energy-efficient light emitting diode (LED) luminaires and emerging public lighting technologies such as smart-enabled luminaires.⁴¹

The main customers of public lighting services are local government councils and jurisdictional main roads departments.

There are a number of different tariff classes and prices for public lighting services. Factors influencing prices for a particular installation include which party is responsible for capital provision, and which party is responsible for maintaining and/or replacing installations.

16.2.1 Draft decision

Our draft decision is to not accept Ergon Energy’s public lighting proposal although we consider Ergon Energy’s public lighting proposal is largely reasonable. However, we note Ergon Energy may revise its public lighting proposal due to the Australian Energy Market Commission’s (AEMC) recent final determination, which has implications particularly for smart lighting technologies.

We updated Ergon Energy’s proposal to apply our draft decision on labour escalators, weighted average cost of capital (WACC) and consumer price index (CPI). We entered these substitute inputs into the public lighting models, resulting in minor adjustments to Ergon Energy’s public lighting prices. We also amended Ergon Energy’s smart control pricing model

³⁹ Ergon Energy, *Attachment 11.09 – ACS Explanatory Statement, January 2024*, p. 38

⁴⁰ Ergon Energy, *Attachment 11.09 – ACS Explanatory Statement, January 2024*, p. 37

⁴¹ AER, *Final Framework and Approach - Ergon and Energex 2025-30*, July 2023, p. 36.

to correct a calculation error, resulting in downward adjustments to smart control prices (see section 16.2.4.4).

Our draft decision public lighting prices for 2025–26 and X factors are set out in the Draft Decision Public Lighting model (except for smart controls).⁴² The X factors are used to adjust prices annually for years 2 to 5 of the 2025–30 period. The prices for 2025–26 are on average 0.48% lower than Ergon Energy’s proposed prices.

Our draft decision does not include prices for smart controls for 2025–26 because this service will not be introduced until 2026–27 (see sections 16.2.2.1 and 16.2.4.4). We will determine Energex’s smart control prices for 2026–27 using the draft decision smart lighting model after updating for actual CPI during our annual pricing proposal process.⁴³ Our draft decision sets the X factor at zero for smart controls for the 2025–30 period.

16.2.2 Ergon Energy’s proposal

In developing its public lighting proposal, Ergon Energy held bespoke public lighting engagement with stakeholders given the specific nature of public lighting services and the relatively small number of public lighting customers.

Starting in November 2022, Ergon Energy aimed to build customer understanding. This included sessions on areas such as the regulatory proposal process and the revenue and tariff setting process.⁴⁴

Consultation then transitioned to more interaction and engagement with customers and stakeholders. Ergon Energy held individual and group sessions to provide stakeholders the opportunity to provide feedback and influence its public lighting strategy. Ergon Energy also discussed topics on the regulatory determination process, how it derived its public lighting revenue and prices, and the introduction of smart cells.⁴⁵

Based on customer feedback, Ergon Energy proposed to convert all conventional lights to LED lights by 2030. Customers supported this proposal during Ergon Energy’s engagement process.⁴⁶ This included the initiative to recover the residual value of the remaining conventional lights out to 2035 to mitigate customer impact.⁴⁷ Ergon Energy estimated that customers would see a 56% reduction in energy usage in 2030 compared to usage in the 2020–25 period.⁴⁸

⁴² AER Draft Decision - Ergon - 11.02 - ACS Public lighting pricing model - January 2024 – public, ‘AER Draft Decision’!C4:E4 and Draft Decision’!C10:C23.

⁴³ AER Draft Decision - Ergon - 11.05 - ACS Smart control pricing model - January 2024 – public, ‘AER Draft Decision’!D5:G5.

⁴⁴ Ergon Energy, *2025-30 Regulatory Proposal - January 2024 - public*, January 2024, p. 190.

⁴⁵ Ergon Energy, *2025-30 Regulatory Proposal - January 2024 - public*, January 2024, p. 190.

⁴⁶ Ergon Energy, *11.09 - ACS Explanatory Statement - January 2024 – public*, pp. 10-11.

⁴⁷ Ergon Energy, *11.09 - ACS Explanatory Statement - January 2024 – public*, p. 11.

⁴⁸ Ergon Energy, *11.09 - ACS Explanatory Statement - January 2024 – public*, p. 13.

Ergon Energy proposed to maintain its Rate 1⁴⁹ and Rate 2⁵⁰ public lighting tariffs. Ergon Energy proposed to apply a 10% capital charge to cover the cost of Rate 2 assets upon failure or end of life.⁵¹

Ergon Energy proposed to retire its Rate 4⁵² tariff as it had very little uptake in the 2020–25 period and proposed 2 new tariffs:⁵³

- Rate 2A: This tariff will recover Ergon Energy’s capital expenditure (capex) and operating expenditure (opex) for the conversion of Rate 2 conventional assets to LED assets.
- Rate 2B: This tariff will recover the costs of smart devices as a quoted service (see section 16.2.2.1).

Ergon Energy stated customers on the Rate 4 tariffs will be reassigned to the Rate 2 LED tariffs.⁵⁴ Ergon Energy also stated its conventional tariffs will become obsolete by 30 June 2030, once the LED rollout is complete.⁵⁵

Ergon Energy proposed a 20% increase in its Rate 1 and Rate 2 LED prices between 2024–25 and 2025–26. The corresponding increase for Rate 1 and Rate 2 Conventional prices is 3%. These Rate 1 and Rate 2 prices (for both conventional lights and LED) then increase by approximately 9% per annum for the rest of the 2025–30 period.

Price impacts will vary for each customer based on the specific services selected and type of lights installed. Assuming a number of scenarios,⁵⁶ Ergon Energy estimated customers on average will see an increase of 18 per cent in the first year of the 2025–30 period followed by an average 1 per cent annual decrease for the remaining four years.⁵⁷

Ergon Energy also estimated its customers would collectively save \$11.7 million in Unmetered Supply Charges over the 2025–30 period due to LED energy efficiency.⁵⁸

16.2.2.1 Smart controls

Responding to customer demand, Ergon Energy proposed to introduce smart control services during the 2025–30 period. Ergon Energy proposed a ‘user-pays’ approach where

⁴⁹ Rate 1 tariffs recover the capital and operating costs of non-gifted assets. There are four rate 1 tariffs reflecting combinations of major vs minor roads, and conventional vs LED lights.

⁵⁰ Rate 2 tariffs recover operating costs of assets gifted to Ergon Energy. There are four rate 2 tariffs reflecting combinations of major vs minor roads, and conventional vs LED lights.

⁵¹ Ergon Energy, *11.09 - ACS Explanatory Statement - January 2024 – public*, pp. 16-17.

⁵² Rate 4 tariffs are for assets where customers fund the replacement of the rate 1 luminaire and lamp to LED, but where the associated pole and cabling are legacy and non-gifted assets. There are two rate 4 tariffs (major vs minor roads).

⁵³ Ergon Energy, *11.09 - ACS Explanatory Statement - January 2024 – public*, p. 16.

⁵⁴ Ergon Energy, *ERG IR59 – Public lighting – Responses - 26 July 2024*, p. 8.

⁵⁵ Ergon Energy, *ERG IR59 – Public lighting – Responses - 26 July 2024*, p. 9.

⁵⁶ Ergon Energy, *ERG IR59 – Public lighting – Responses - 26 July 2024*, p. 8.

⁵⁷ Ergon - *11.09 - ACS Explanatory Statement - January 2024*, p. 26.

⁵⁸ Ergon Energy, *11.09 - ACS Explanatory Statement - January 2024 – public*, p. 26

customers pay for the installation and hardware costs upfront then gift the assets to Ergon Energy to operate and maintain.⁵⁹

Through its proposed Rate 2B tariff, Ergon Energy would recover the costs of the data management system, user interface set up digital costs and labour costs of replacing defective assets.⁶⁰

This tariff will be offered from 1 July 2026 to allow Ergon Energy sufficient time to develop operating protocols and standards, establish procurement contracts with its suppliers and conduct a pilot.

16.2.3 Assessment approach

To determine efficient prices for Ergon Energy’s public lighting services we assessed its public lighting models, considered historical data and benchmarked proposed costs against other distributors, and against independent data and information as relevant. Specifically, we assessed proposed labour price growth rates, other input assumptions and stakeholder submissions.

We also engaged Ergon Energy through information requests to clarify and potentially resolve outstanding issues.

We updated model parameters where appropriate after taking the factors described above into consideration.

We benchmarked Ergon Energy’s proposed prices against the prices of the other distributors in the NEM.

16.2.4 Reasons for draft decision

16.2.4.1 Overall assessment

Overall, we consider Ergon Energy’s public lighting proposal is reasonable.

We amended Ergon Energy’s proposed public lighting prices only to be consistent with other aspects of our draft decision, namely on labour escalators, WACC and CPI (see section 16.2.4.6). We also amended Ergon Energy’s smart control pricing model to correct a calculation error (see section 16.2.4.4).

While Ergon Energy proposed price increases for the 2025–30 period, stakeholders supported the underlying drivers of Ergon Energy’s proposal. We also consider Ergon Energy’s proposal used reasonable modelling assumptions. Section 16.2.4.3 further discusses our consideration of Ergon Energy’s proposal.

We particularly commend Ergon Energy for its stakeholder engagement. As we discuss in sections 16.2.4.2 and 16.2.4.3, we consider its open and collaborative approach to engagement played a large part in developing a proposal that reflected stakeholder preferences while mitigating price impacts.

⁵⁹ Ergon Energy, *11.09 - ACS Explanatory Statement - January 2024 – public*, p. 15.

⁶⁰ Ergon Energy, *11.09 - ACS Explanatory Statement - January 2024 – public*, p. 16.

In response to our issues paper, the Reset Reference Group (RRG) and a private citizen submitted their support for Ergon Energy’s proposed public lighting services and prices.⁶¹

16.2.4.2 Ergon Energy’s stakeholder consultation

We consider Ergon Energy was able to develop a reasonable public lighting proposal due, in large part, to its open and collaborative stakeholder engagement process.

Ergon Energy undertook extensive stakeholder engagement on their public lighting strategy beginning in November 2022,⁶² which we observed. This engagement involved a series of online workshops dedicated to developing its public lighting proposal. The initial workshops consisted of information sessions providing background on the regulatory framework for public lighting, tariff design and the drivers of costs. Ergon Energy then progressed these sessions to discuss options for the 2025–30 period, notably the pace of rolling out energy-efficient LED lights and deploying smart controls.

In addition to these workshops, Ergon Energy held sessions with customers upon request to discuss the impact of Ergon Energy’s public lighting proposal on their individual circumstance.⁶³ Ergon Energy also published a number of consultation documents in which it outlined issues or set out its proposed public lighting strategy, and requested stakeholder submissions.

Throughout, Ergon Energy maintained (and continues to maintain at the time of writing) a website dedicated to its public lighting consultation.⁶⁴ This website includes all of Ergon Energy’s presentation and reference materials, including recordings of workshops. It also includes Ergon Energy’s consultation documents and stakeholder submissions.

The RRG submitted that Ergon Energy’s engagement on public lighting was “effective throughout”, with Ergon Energy prepared to listen to customers’ feedback and reflect that feedback in their regulatory proposal. The RRG highlighted Ergon Energy’s bespoke program “as an exemplary example of effective customer engagement.”⁶⁵ From our observations, we concur with the RRG.

16.2.4.3 The basis of Ergon Energy’s proposal is reasonable

While Ergon Energy proposed price increases for the 2025–30 period, the main driver of these increases—converting all conventional lights to LED by 2030—has stakeholder support. Importantly, we consider Ergon Energy’s proposal used reasonable modelling assumptions and included measures to mitigate the price impact of its LED strategy.

⁶¹ EQL Reset Reference Group - Submission - 2025-30 Electricity Determination - Energex & Ergon - May 2024, p. 7. Amanda Pummer - Submission - 2025-30 Electricity Determination - Energex & Ergon - May 2024, p. 3.

⁶² Ergon - 2025-30 Regulatory Proposal - 31 January 2024, p. 190.

⁶³ Ergon Energy - 11.09 - ACS Explanatory Statement - January 2024 – public, p. 9.

⁶⁴ <https://www.talkingenergy.com.au/public-lighting> (accessed 14 August 2024).

⁶⁵ EQL Reset Reference Group - Submission - 2025-30 Electricity Determination - Energex & Ergon - May 2024, p. 7. EQL Reset Reference Group - Engagement Report - 2025-30 Electricity Determination - Ergon Energy - March 2024, p. 26.

As we described in section 16.2.2, Ergon Energy proposed price increases for public lighting services in the 2025–30 period. Ergon Energy stated the prices increases are driven by the upfront capital expenditure to fund the 100% LED rollout by 2030, resulting in an increased public lighting asset base.⁶⁶

During pre-lodgement engagement, Ergon Energy asked stakeholders whether they prefer a moderate deployment or an accelerated deployment of LED lights. In the former, Ergon Energy would aim to convert 65% of its public lights to LED by 2030. In the latter, Ergon Energy would aim for 100% conversion.⁶⁷

Ergon Energy stated stakeholders provided unanimous support for the full deployment of LED lights by 2030.⁶⁸

Stakeholders also supported Ergon Energy’s proposal to recover the residual value of the remaining conventional lights out to 2035 to mitigate customer impact.⁶⁹

Ergon Energy discussed the recovery of residual value of conventional lights with its customers in the early stages of its engagement process. Ergon Energy presented two options to its customers:⁷⁰

- Extend the recovery of residual costs to 2035
- Set the recovery of residual costs to 2030

Customers preferred to extend the conventional lights’ residual life to 2035 as they considered the price increase is too significant if Ergon Energy recovered the residual life to 2030. This is especially considering the price increases associated with the accelerated LED rollout.⁷¹

We also consider the modelling and assumptions that underpin Ergon Energy’s proposed prices for public lighting services are reasonable. For example, Ergon Energy:

- stated it did not include an LED failure rate for the 2025–30 period as Ergon Energy expects a minimal failure rate in the early stages of their operation. Ergon Energy stated it intends to introduce an LED failure rate in its proposal for the 2030–35 period (see section 16.2.4.5.1).⁷²
- included an annual efficiency factor in its opex costs to reflect the estimated reduction in maintenance due to the LED rollout.⁷³

⁶⁶ Ergon Energy, ERG IR59 – Public lighting – Responses - 26 July 2024.

⁶⁷ Ergon - 11.09 - ACS Explanatory Statement - January 2024 – public, p. 10.

⁶⁸ Ergon Energy - 11.09 - ACS Explanatory Statement - January 2024 – public, p. 13.

⁶⁹ Ergon Energy - 11.09 - ACS Explanatory Statement - January 2024 – public, p. 11.

⁷⁰ Ergon Energy, ERG IR59 – Public lighting – Responses - 26 July 2024.

⁷¹ Ergon Energy, ERG IR59 – Public lighting – Responses - 26 July 2024.

⁷² Ergon Energy, ERG IR59 – Public lighting – Responses - 26 July 2024.

⁷³ Ergon Energy, 11.09 - ACS Explanatory Statement - January 2024 – public, p. 18.

- did not propose any new capex for conventional lights for the 2025–30 period due to the LED rollout.⁷⁴

16.2.4.4 Smart controls

We consider Ergon Energy’s proposed smart control services and prices are generally reasonable because Ergon Energy developed its services and prices in response to stakeholder demand during pre-lodgement consultation.

We consider the modelling and assumptions that underpin Ergon Energy’s proposed prices for smart controls are reasonable with one exception. We identified that Ergon Energy’s smart control pricing model double-counts the conversion of Data Management System unit prices from US dollars to Australian dollars. We raised this issue with Ergon Energy, who confirmed the error.⁷⁵ We removed this double-counting in our draft decision, resulting in downward adjustments to smart control prices.⁷⁶

In its proposal, Ergon Energy noted there are currently regulatory constraints on the use of smart controls for metering purposes as the AEMC reviews the regulatory arrangements. As we discuss in section 16.2.4.5.2, the AEMC recently completed its review. We are therefore open to Ergon Energy discussing the implications of the AEMC’s review on proposed public lighting services, particularly smart controls, in its revised proposal as relevant.

During pre-lodgement engagement, Ergon Energy proposed the option of a ‘user-pays’ approach whereby customers would fund the upfront capital cost of the assets and then gift the assets to Ergon Energy to operate and maintain.⁷⁷ Ergon Energy also proposed the alternative where it would deploy smart control devices to all LED lights in the 2025–30 period, as well as a “do nothing” option for the 2025–30 period.⁷⁸

Customers provided broad support for the user-pays approach and so Ergon Energy developed its smart lighting strategy based on this approach with the aid of an external consultant.⁷⁹ Ergon Energy considered this is a prudent approach as it would provide customers access to smart technology while there is still uncertainty on their use as metering devices.⁸⁰

We consider it is reasonable for Ergon Energy to offer this tariff from 1 July 2026. Smart controls are a relatively new technology in Australia and are not yet widespread among distributors in the NEM. Hence, we consider it is prudent for Ergon Energy to use some time to develop operating protocols and standards for their introduction.

⁷⁴ Ergon Energy, *11.09 - ACS Explanatory Statement - January 2024 – public*, p. 20.

⁷⁵ Ergon Energy, Response to Ergon - information request IR#063 - Smart control pricing model - 20240902 – Public, 3 September 2024.

⁷⁶ AER Draft Decision - Ergon - 11.05 - ACS Smart control pricing model - January 2024 – public, ‘Inputs’!C30.

⁷⁷ Ergon Energy, *11.09 - ACS Explanatory Statement - January 2024 – public*, p. 14.

⁷⁸ Ergon Energy and Energex, *Our Proposed Draft Smart Public Lighting Strategy – Summary*, 24 October 2023.

⁷⁹ Ergon Energy, *11.09 - ACS Explanatory Statement - January 2024 – public*, p. 14.

⁸⁰ Ergon Energy, *11.09 - ACS Explanatory Statement - January 2024 – public*, p. 14.

We also note that there is still relatively little information regarding the costs of installing, operating and maintaining these new technologies.⁸¹ We will use future distribution determination processes to collect such cost information as smart controls become more widely adopted across the NEM. We also anticipate unit costs and ultimately prices will fall in future regulatory control periods as distributors gain experience with their wider deployment.

16.2.4.5 Other issues raised in submissions

The RRG supported Ergon Energy’s public lighting proposal, but considered further engagement with customers is required on:⁸²

- the estimated impacts for the 2030–35 period. Initial discussions have been held, with Ergon Energy forecasting significant increases for this period. Customers are seeking further detail regarding the drivers of these pricing impacts, including the assumed failure rates of LED lights.
- the AEMC’s consultation process and implications associated with the creation of Type 9 meters,⁸³ the role of distributors in providing services and the likely costs associated with the deployment of smart public lighting cells.

16.2.4.5.1 Estimated impacts for the 2030–35 period

We acknowledge Ergon Energy’s customer impact analysis for the 2030–35 period is indicative at this stage. We commend Ergon Energy for taking the initiative to inform customers of such impacts at this early stage, and we encourage Ergon Energy to continue this communication. We will assess Ergon Energy’s public lighting proposal for the 2030–35 period—including customer impacts, modelling and assumptions—once we commence the processes for the distribution determination.

Ergon Energy discussed the estimated price impacts for the 2030–35 period in its proposal.⁸⁴ The analysis assumed an ongoing capex forecast based on an estimated 5% failure rate of LED lights requiring replacement in 2030–35, among other assumptions.⁸⁵

Ergon Energy stated it is aware of discussions and different perspectives on the failure rates of LED technology. Ergon Energy acknowledged its assumed failure rate may or may not reflect actual failures but is based on the limited information it has available. In the absence of further evidence on LED assets in the Queensland context, Ergon Energy considered that a 5% failure rate is not unreasonable. Ergon Energy stated it would revise its assumptions when developing its 2030–35 regulatory proposal based on evidence gathered over the next five years.⁸⁶

⁸¹ Among NEM distributors, only Ausgrid and AusNet Services currently offer set fees for smart control services as alternative control services. Where other distributors offer smart controls, they charge for these services on a quotation basis.

⁸² EQL Reset Reference Group - Submission - 2025-30 Electricity Determination - Energex & Ergon - May 2024, p. 7.

⁸³ For a description of type 9 meters, see AEMC, Unlocking CER benefits through flexible trading, Rule determination, 15 August 2024, pp. 46–48.

⁸⁴ Ergon Energy, 11.09 - ACS Explanatory Statement - January 2024 – public, pp. 27–30.

⁸⁵ Ergon Energy, 11.09 - ACS Explanatory Statement - January 2024 – public, p. 27.

⁸⁶ Ergon Energy, ERG IR59 – Public lighting – Responses - 26 July 2024, p. 10.

16.2.4.5.2 AEMC consultation and type 9 meters

We commend Ergon Energy for taking the initiative to inform customers of the AEMC’s consultation process and implications associated with the creation of Type 9 meters. We encourage Ergon Energy to continue this communication with stakeholders, particularly as the AEMC has since published its final determination and there is now greater certainty on these matters than previously.

In March 2024, Ergon Energy conducted a “Lunch & Learn Webinar” on the AEMC’s draft determination on the use of smart cells with metering capabilities.⁸⁷

In addition to the “Lunch & Learn Webinar”, Ergon Energy noted⁸⁸ it raised the AEMC’s review and its implications in several customer engagement sessions in April 2023,⁸⁹ August 2023⁹⁰ and in October 2023.⁹¹ Ergon Energy also published a fact sheet⁹² on this topic and raised this matter in its Public Lighting Issue Paper published in July 2023.⁹³

Ergon Energy stated it intended to resume discussions with customers on these matters once the AEMC has published its final determination.⁹⁴

The AEMC published its final determination on 15 August 2024.⁹⁵ Among other initiatives, the AEMC stated its final determination will allow the use of in-built measurement capability in technology such as streetlights to provide innovative and essential products and services at a lower cost. It will do this by creating three new meter types⁹⁶ with lower minimum specifications to enable technology with in-built measurement capability to be used for settlement and billing.⁹⁷

Arrangements for the new meter types include:⁹⁸

- They will be voluntary to use.
- The meter types will have lower minimum specifications than type 4 meters. AEMO will set metering requirements and minimum service specifications for these meters.
- Streetlights using a type 9 meter will be able to aggregate multiple loads (i.e. multiple streetlights) under one National Metering Identifier.

⁸⁷ Available on Ergon Energy’s dedicated public lighting consultation webpage: <https://www.talkingenergy.com.au/public-lighting>

⁸⁸ Ergon Energy, ERG IR59 – Public lighting – Responses - 26 July 2024, p. 11.

⁸⁹ <https://www.talkingenergy.com.au/35806/widgets/200811/documents/255874>

⁹⁰ <https://www.talkingenergy.com.au/35806/widgets/200811/documents/265777>

⁹¹ <https://www.talkingenergy.com.au/35806/widgets/200811/documents/271436>

⁹² <https://www.talkingenergy.com.au/35806/widgets/200811/documents/259382>

⁹³ <https://www.talkingenergy.com.au/35806/widgets/200811/documents/264029>

⁹⁴ Ergon Energy, ERG IR59 – Public lighting – Responses - 26 July 2024, p. 12.

⁹⁵ See <https://www.aemc.gov.au/rule-changes/unlocking-CER-benefits-through-flexible-trading>.

⁹⁶ These new meter types are type 8A, type 8B and type 9 meters. Descriptions of these new meter types are in AEMC, Unlocking CER benefits through flexible trading, Rule determination, 15 August 2024, pp. 46–48.

⁹⁷ AEMC, Unlocking CER benefits through flexible trading, Rule determination, 15 August 2024, pp. v and 44.

⁹⁸ AEMC, Unlocking CER benefits through flexible trading, Rule determination, 15 August 2024, p. vi and 44–54.

- For connections such as streetlights using a type 9 meter, the Metering Coordinator (MC) role will be contestable.

We look forward to Ergon Energy discussing the implications of the AEMC’s final determination on its proposed public lighting services in its revised proposal, as relevant. This should include describing the progress of its consultation with stakeholders and changes to its Rate 2B services and prices due to the AEMC’s final determination, if any.

16.2.4.6 Labour escalator, rate of return and inflation

We have amended the following inputs into Ergon Energy’s public lighting models. These amendments are consistent with our draft decision on other relevant aspects of Ergon Energy’s proposal.

16.2.4.6.1 Labour escalators

We substituted the labour escalators in Ergon Energy’s public lighting model to be consistent with our draft decision on Ergon Energy’s opex (see attachment 6).

16.2.4.6.2 Rate of return

We substituted the rate of return inputs in Ergon Energy’s public lighting models to be consistent with our draft decision on Ergon Energy’s rate of return (see attachment 3).

16.2.4.6.3 Inflation

We have substituted the forecast inflation input for the 2025–26 year in Ergon Energy’s public lighting model with placeholder values in this draft decision. We will update this for actual inflation in our final decision consistent with our final decision on Ergon Energy’s control mechanisms.

16.2.4.7 Introducing new services during a regulatory control period

Our draft decision is that Ergon Energy must price any new public lighting services it introduces during the 2025–30 period according to the control mechanism for quoted services. Ergon Energy should only introduce new services because customers want them (customer driven). In proposing new services, we require that Ergon Energy demonstrates customer support for such prices and services.

We consider this is consistent with our previous distribution determinations. We stated new alternative control services introduced during a regulatory control period with characteristics that are the same or essentially the same as other alternative control services should be priced as a quoted service until the next regulatory control period (see attachment 14).

It is worth considering that quoted services generally apply to one-off services. The control mechanism poses no administrative issues where, for example, a council agrees to pay for the installation of new technologies up-front.

However, some councils may prefer to pay for new technologies over their economic or useful life. We consider this is possible under the control mechanism for quoted services. This could involve determining the up-front costs based on the control mechanism formula as a first step. The distributor would then calculate an annual fee using a method appropriate to the service.

Further information about quoted services and introducing new prices within the 2025–30 period is set out in see attachment 14.

Shortened forms

Term	Definition
ACS	alternative control services
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
ANS	Ancillary network services
Capex	capital expenditure
CAM	Cost Allocation Method
CPI	consumer price index
Distributor	distribution network service provider
EQL	Energy Queensland
F&A	framework and approach
LED	Light Emitting Diode
NEL	national electricity law
NEM	national electricity market
NER or the rules	national electricity rules
opex	operating and maintenance expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
RRG	Reset Reference Group
WACC	weighted average cost of capital