



Attachment 03.01.02 Other revenue adjustments



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1. Introduction

1.1 Overview

The National Electricity Rules (NER) make provision for a number of adjustments that need to be made to the revenue determined using the building block methodology during the regulatory control period 2015-20. Some adjustments are made directly in the calculation of the annual revenue requirement (ARR) as part of the building block approach (i.e. as a revenue increment or decrement). Other adjustments are made as part of the revenue cap calculation and/or in the annual Pricing Proposal.

This attachment provides further information on the revenue increments and decrements included in the calculation of the ARR.

1.2 Rule requirements

In addition to the standard building blocks¹, clause 6.4.3(a) of the NER requires the calculation of the ARR to include:

- Revenue increments and decrements (if any) from the application of incentive schemes (clause 6.4.3(a)(5))
- Revenue increments and decrements (if any) arising from the application of a control mechanism in the previous regulatory control period (clause 6.4.3(a)(6))
- Revenue decrements (if any) from the use of assets used to provide Standard Control Services that are also used to provide certain other services (clause 6.4.3(a)(6A)).

The Post Tax Revenue Model (PTRM) Handbook states that any carry over amounts arising from the arrangements of the previous regulatory control period should be separately identified within the operating expenditure section of the PTRM input sheet.²

1.3 Summary of revenue adjustments

For Ergon Energy, the applicable revenue adjustments are those stemming from:

- the carry forward of DUOS unders and overs from the current regulatory control period
- the application of the following incentive schemes:
 - the Efficiency Benefit Sharing Scheme (EBSS) for the regulatory control period 2010-15, as the efficiency gains / losses from the that regulatory control period will be shared with customers in the regulatory control period 2015-20
 - the Demand Management Incentive Scheme (DMIS), specifically Part A, the demand management innovation allowance (DMIA), for the regulatory control period 2015-20
- the use of shared assets for providing Alternative Control Services.

The following table summarises the adjustments that have been made to the ARR.

¹ That is, return on assets, return of assets (i.e. regulatory depreciation), operating expenditure and allowance for tax.

² AER, *Electricity distribution network service providers – Post-tax revenue model handbook*, June 2008.

Table 1: Estimated revenue increments and decrements, 2015-20

\$m (2014-15)	2015-16	2016-17	2017-18	2018-19	2019-20
Unders and Overs (2010-15)	57.10	-	-	-	-
EBSS (2010-2015)	36.59	52.37	73.83	(16.65)	0.00
DMIS (Part A, DMIA) 2015-2020	0.97	0.95	0.93	0.90	0.88
Shared Assets 2015-2020	5.87	5.87	5.87	5.87	5.87
Total ARR Increment / (Decrement)	100.49	59.14	80.58	(9.92)	6.71

The above amounts for the unders and overs adjustment and EBSS are included in the PTRM as “Carry-over amounts” within the “Forecast Operating and Maintenance Expenditure” inputs. The amounts for the DMIA have been included in the PTRM in “Total Other O&M Costs”. The adjustment for Shared Assets has been included as an input row at the bottom of the “Forecast Customer Contributions” section of the PTRM and carries through to the calculation of the ARR.

This attachment provides further information on the revenue adjustments required:

- for clearing the unders and overs balance from the current regulatory control period
- to account for the assets in the asset base that provide both Standard Control Services and Alternative Control Services.

Further information on the adjustments to the revenue due to the application of the incentive schemes are covered in supporting document *03.01.03 - Application of Incentive Schemes*.

2. DUOS unders and overs balance

Under a revenue cap, our revenues are adjusted annually to clear any under or over recovery of actual revenue collected through distribution use of system (DUOS) charges. This 'unders and overs' process is undertaken as part of annual pricing and ensures we recover no more and no less than the Maximum Allowable Revenue (MAR)³ approved by the AER for any given year.

To ensure customers did not experience any unnecessary price shocks as a result of clearing any significant DUOS under or over recoveries, the AER set tolerance limits in its Distribution Determination 2010-15. Where tolerance limits were triggered, we were required to spread the under or over recovery over multiple regulatory years, instead of clearing the entire under or over recovery in setting prices for the forthcoming year.

2.1 Current unders and overs balance

Our 2014-15 Pricing Proposal, which was approved by the AER on 13 June 2014, highlighted that we would have a residual balance of \$53.57 million (nominal) left in our DUOS unders and overs account as at 30 June 2015.⁴ This under-recovery represented more than 5% of the estimated MAR for 2014-15, which meant that Ergon Energy was required to submit a plan to the AER for clearing the balance of the DUOS unders and overs account.

Our plan, as set out in the 2014-15 Pricing Proposal, was to:

- set 2014-15 tariffs to clear the remaining under-recovery balance from 2010-11 and most of the under-recovery balance from 2011-12
- carry over the balance of the under-recovery for 2011-12 and all of the under-recovery balance for 2012-13 as a carry forward adjustment in the PTRM in the next regulatory control period.

The AER approved this plan as part of its approval of Ergon Energy's 2014-15 Pricing Proposal.

We note that this is intended to clear the forecast balance as at 30 June 2015, as set out in our 2014-15 Pricing Proposal. There is a two-year lag between incurring an under-recovery and adjustment of tariffs to recover the under-recovery. Therefore, this unders and overs balance does not include any adjustments for under or over-recovery from 2013-14, which will be assessed and approved as part of the 2015-16 Pricing Proposal.

2.2 Proposed adjustment

Consistent with the approved 2014-15 Pricing Proposal, we propose to clear the DUOS unders and overs balance of \$53.57 million (nominal) as a carry forward adjustment in the PTRM. Specifically, the carry forward amount included in the PTRM includes a value of \$57.10 million (\$2014-15) in 2015-16.

Table 2: Estimated revenue increments for clearing unders and overs, 2015-20

\$m (2014-15)	2015-16	2016-17	2017-18	2018-19	2019-20
Adjustment for Unders and Overs Closing Balance in 2014-15	57.10	-	-	-	-

³ The 'Maximum Allowable Revenue (MAR)' relates to terminology applied in the revenue cap formula in the current regulatory control period. The AER has proposed a number of changes to the formula for 2015-20. Refer to supporting document *04.01.00 – Compliance with Control Mechanisms* for further information.

⁴ Ergon Energy, *2014-15 Pricing Proposal*, 30 April 2014.

The amount of the adjustment has been determined as follows:

1. Adjust the closing balance of the 2014–15 DUOS unders and overs account by the Weighted Average Cost of Capital (WACC), in order to calculate the amount of the carry over in \$2015-16 nominal terms. This is consistent with the current approach of indexing the closing balance of the DUOS unders and overs account in year t-1 for one year's worth of interest (to arrive at an opening balance in year t). To avoid circular updates to the WACC parameter in the carry-over amount calculations, Ergon Energy proposes to apply the nominal WACC approved in the current period (9.72 per cent).
2. De-escalate the above amount by CPI to arrive at the total carry-over amount in \$2014-15 real terms. We propose to use the same out-turn CPI that is used in the MAR formula in our 2014-15 Pricing Proposal (2.93 per cent).

As the carry over allowance is essentially a pass through in the PTRM, the full amount of the adjustment is reflected in the ARR in the year in which the adjustment is made. However the impact of this on prices is tempered by the smoothing of the ARR over the regulatory control period 2015-20.

Ergon Energy notes that this adjustment is only to account for the unders and overs balance that has been recognised to date in the current regulatory control period, i.e. as per the approved 2014-15 Pricing Proposal. Adjustments for any unders and overs arising from the application of the control mechanism in the regulatory control period 2015-20 will be managed as per our proposed approach set out in Chapter 4 of the Regulatory Proposal.

3. Shared assets

3.1 Overview

For the regulatory control period 2010-15, we have applied clause 11.16.3 of the NER for the treatment of assets in the RAB, which states that (for the regulatory control period 2010-15) Ergon may adopt the approach approved by the Queensland Competition Authority (QCA) for the treatment of assets in the regulatory asset base (RAB). This has resulted in the inclusion of assets in the RAB which are used to provide Standard Control Services, Alternative Control Services and other services.

For the regulatory control period 2010-15, we have applied an offsetting revenue adjustment consistent with the AER's Distribution Determination 2010-15. This ensures:

- we are not recovering revenue twice for the same assets
- customers are only paying for the costs of assets which are used to provide Standard Control Services.

We propose to adopt this same approach in the next regulatory control period. This means the opening RAB value at 1 July 2015 contains values for assets that are used to provide Standard Control Services, Alternative Control Services and other services. Consistent with the current arrangements, we propose to apply an offsetting revenue adjustment, equivalent to the sum of the depreciation and return on assets, for the component of the shared assets that are used for purposes other than Standard Control Services.

3.2 Rule requirements

Clause 6.5.1 of the NER requires that the RAB include only the value of assets in the RAB to the extent those assets are used to provide Standard Control Services. However, the application of the transitional provisions set out in clause 11.16.3 of the NER means that Ergon Energy's RAB includes assets used to provide other services, including Alternative Control Services and Unregulated Services.

The NER also recognises that the usage of assets may change over time, i.e. where assets that were expected to provide Standard Control Services are subsequently used to provide other services. The AER's Shared Assets Guideline⁵ applies in these circumstances, and provides for a mechanism to reduce the ARR to reflect asset costs attributable to services generating unregulated revenue from the use of shared assets.

3.3 Proposed methodology

We note that the Shared Asset Guideline only contemplates the situation where assets are used to provide Standard Control Services and Unregulated Services. The Shared Asset Guideline does not appear to consider the situation where assets are used to provide Standard Control Services and Alternative Control Services. Given this, we propose to continue to adjust for Alternative Control Services in our revenue adjustment calculations.

This means that we have considered the adjustments for the:

- use of shared assets for Unregulated Services in accordance with the Share Asset Guideline

⁵ AER, *Shared Asset Guideline*, November 2013.

- use of shared assets for Alternative Control Services and Unregulated Retail Services (not captured by the Shared Asset Guideline) consistent with the approach to the adjustment for these assets in the current regulatory control period.

We are of the view that this approach aligns with the principles of the shared asset mechanism outlined in the AER's Shared Asset Guideline, namely that customers should not pay for more than their fair share for shared assets and that service providers may propose their own cost reductions.

Further, the proposed revenue adjustment for the use of assets to provide Alternative Control Services and Unregulated Retail Services is equivalent to the control, which sets a cap on the quantum of the cost reduction. The control cap sets an upper limit on the cost reduction equivalent to the sum of the return of and return on the asset value. This is the approach we have taken to calculate the adjustment for the shared assets used to provide Alternative Control Services and Unregulated Retail Services not captured by the Shared Asset Guideline.

3.4 Application of the Shared Assets Guideline

The Shared Assets Guideline requires Ergon Energy to estimate the 'cost reduction' for each year of the regulatory control period 2015-20. As we do not forecast our unregulated revenues, we have applied the Shared Asset Guideline to Ergon Energy's financial data for 2012-13, which is the latest year for which audited financial statements are available. We have then indexed the calculated revenue adjustment using the forecast inflation rate.

We believe this is a conservative approach, as the value of the assets in the RAB that are used to provide services other than Standard Control Services is expected to fall over time, as the value of future capital expenditure will be allocated between services in accordance with our approved Cost Allocation Method (CAM).

3.4.1 Materiality threshold

The Shared Asset Guideline defines shared asset unregulated revenue as the following:

*"Revenues paid to a distributor for unregulated services provided using the distributor's shared assets."*⁶

This definition is interpreted to mean that all revenues generated by Ergon Energy, as the distribution network service provider, from Unregulated Services are classified as shared asset unregulated revenue if, in providing the Unregulated Service, shared assets are used in a significant way.

Based on this definition, Ergon Energy has estimated that its "shared asset unregulated revenue" is \$279.7 million (nominal). This has been determined by identifying from the 2012-13 audited accounts those unregulated revenues that involve the use of shared assets, as summarised in the following table.

⁶ AER, *Shared Asset Guideline*, November 2013, p.19.

Table 3: Unregulated revenue using shared assets, 2012-13

\$m (nominal)	2012-13	Notes
Fuel Tax Credit	0.51	Rebate on the diesel fuel used in 4WDs for both isolated networks and regulated network.
EEQ Service Level Agreement	47.03	Revenue received from EEQ for services provided under a service level agreement (SLA) for finance, human resource and property services support.
Sparq Corporate Services Fee	3.59	Revenue received from Sparq for services provided under an SLA for finance, human resource and property services support.
EET Service Level Agreement	2.15	Revenue received from EET for services provided under an SLA for finance, human resource and property services support.
Non-regulated distribution revenue	18.04	Non-regulated DUOS revenue from unregulated systems, including Hayman Island, Minerals Province and South Walker.
External services	68.87	Revenue from workshops, recoverable emergency works and the Powerlink maintenance contract.
Rent	1.31	Revenue for rental of space in Ergon Energy buildings.
GUOS	111.78	Generation use of system charges for the isolated network.
Other revenue	26.41	Revenue from a range of sources, including sales of technical manuals, tender packs, and other unregulated services.
Shared Assets Unregulated Revenue	279.68	Total unregulated revenue that uses shared assets, before any revenue apportionment.

Clause 6.4.4(b)(c)(3) of the NER states that:

“A shared asset cost reduction should be applied where the use of the asset other than for standard control services is material.”

The Shared Asset Guideline includes a materiality threshold of 1% of a service provider’s ARR as the threshold for materiality. This means that the unregulated use of shared assets is material only when Ergon Energy’s annual unregulated revenues from shared assets are expected to be greater than 1% of its total smoothed ARR for that regulatory year.

Table 4: Calculation of materiality, 2012-13

\$m (nominal)	2012-13	Notes
Shared Assets Unregulated Revenue	279.68	From above
Annual Revenue Requirement	1,364.1	As per Tribunal Order (19 May 2011)
Materiality	20.5%	

As shown above, the Shared Assets Unregulated Revenue was 20.5% of the smoothed ARR for 2012-13. This is above the 1% materiality threshold specified by the AER in the Shared Asset Guideline.

3.4.2 Revenue apportionment

Ergon Energy notes that the Shared Asset Guideline allows for revenue apportionment to be applied where an individual Unregulated Service makes minimal use of shared assets (relative to all of the assets used by that Unregulated Service).⁷ This would allow the unregulated revenue to be reduced proportionately to reflect that minimal shared asset use and thereby impact the materiality of the unregulated revenue.

Some of the Unregulated Services provided by Ergon Energy make only minimal use of the shared assets relative to the total assets used to deliver that service. However, within the narrow definition provided within the AER's Shared Asset Guideline, this is not so prevalent as to reduce the overall materiality of the unregulated revenue to less than 1% of the smoothed ARR for 2012-13.

The following table summarises the revenue apportionment that has been applied.

Table 5: Calculation of revenue apportionment, 2012-13

Revenue item	Unregulated Revenue (\$ million)	Proportion included in Shared Assets Unregulated Revenue	Apportioned Revenue (\$ million)	Basis of Apportionment
Fuel Tax Credit	0.51	1%	<0.01	The value of the shared assets (fleet) used for unregulated services is estimated at \$1.38 million, which is 1% of the book value of the isolated network (\$208 million).
EEQ Service Level Agreement	47.03	100%	47.03	While incidental to the overall provision of the services, all assets used to generate this unregulated revenue are shared assets. There are no unregulated assets used.
Sparq Corporate Services Fee	3.59	100%	3.59	While incidental to the overall provision of the services, all assets used to generate this unregulated revenue are shared assets. There are no unregulated assets used.
EET Service Level Agreement	2.15	100%	2.15	While incidental to the overall provision of the services, all assets used to generate this unregulated revenue are shared assets. There are no unregulated assets used.

⁷ AER, *Shared Asset Guideline*, November 2013.

Revenue item	Unregulated Revenue (\$ million)	Proportion included in Shared Assets Unregulated Revenue	Apportioned Revenue (\$ million)	Basis of Apportionment
Non-regulated distribution revenue	18.04	5%	0.84	The value of the shared assets (fleet and buildings) used for unregulated revenue is estimated at \$3.15 million, which is 5% of the value of the unregulated networks (other than the isolated networks) of \$64.7 million.
External services	68.87	100%	68.87	The majority of the assets used to provide these services are shared assets, although the use of shared assets is incidental for some of the specific services included in this category.
Rent	1.31	100%	1.31	All assets used to provide these services are shared assets.
GUOS	111.78	1%	1.67	The value of the shared assets (fleet and buildings) used for unregulated services is estimated at \$3.15 million, which is 1% of the book value of the isolated network (\$208 million).
Other revenue	26.41	100%	26.41	All assets used to provide these services are shared assets.
Total	279.68	54%	151.86	

There are several items listed in the above table that only use shared assets on an incidental basis in generating the unregulated revenue. However, these services use no unregulated assets at all, which means that the shared assets represent 100% of all assets used to generate the unregulated revenue. Thus, according to the AER's Shared Asset Guideline, the extent of shared asset use is not minimal relative to all assets used by that service.

For example, the unregulated revenue received from Ergon Energy's retail subsidiary for the provision of support services such as finance, human resources and property services was \$47.03 million in 2012-13. The provision of these services involves mostly labour, with incidental use of IT systems. There are no unregulated assets used to derive this revenue, which means that the test for revenue apportionment as set out in the AER's Shared Asset Guideline is not met. That is, the use of shared assets is not minimal relative to all assets used to derive the unregulated revenue.

Ergon Energy is of the view that the literal interpretation of the AER's Shared Asset Guideline is inconsistent with the intent of clause 6.4.4 of the NER that the ARR be adjusted for the cost of the assets used to provide those Unregulated Services. Nevertheless, the control (see below) moderates this inconsistency by providing a cap on the extent of the possible revenue adjustment equivalent to the cost of the shared assets used (i.e. the return on and of the component of the shared asset used to generate the unregulated revenue).

3.5 Adjustments for shared assets

3.5.1 Application of the control (cap)

The control sets a cap on the reduction that may be applied to the ARR to account for the use of shared assets used to provide Unregulated Services. The control is equivalent to the sum of the return on, and return of, the service provider's shared assets.⁸

Consistent with the guidance provided by the AER in the Explanatory Statement to the Shared Asset Guideline, we have based the calculation of the control on the return on, and return of, the shared assets derived from the portion of the shared assets used to deliver services other than Standard Control Services.⁹

We have determined:

- the control for shared assets that are used to provide Standard Control Services and Unregulated Services, consistent with the Shared Asset Guideline
- an equivalent adjustment for assets that are used to provide Standard Control Services and Alternative Control Services and / or Unregulated Retail Services, which are not captured by the Shared Asset Guideline.

This exceeds the requirements of the Shared Asset Guideline (which only contemplates the use of shared assets for Unregulated Services). However, we believe our approach is consistent with the intent of the NER. Furthermore, it is consistent with the approach used in the current regulatory control period and will therefore ensure that our customers are no worse off compared to the equivalent adjustment made to revenue for shared assets in the current regulatory control period.

3.5.2 Calculating the control (cap) for unregulated revenue

For the purposes of calculating the control, the relevant services have been grouped as follows:

- Operations, which include Unregulated Services provided by Ergon Energy such as the Powerlink maintenance contract, workshops, and recoverable emergency works
- Retail, which include the Unregulated Retail Services provided by our wholly owned subsidiary, Ergon Energy Queensland (EEQ)
- Telecommunications, which include the telecommunications Unregulated Services provided by our wholly owned subsidiary, Nexium.

For each of these services, we identified the asset classes that included the shared assets used to deliver the service, determined the depreciation and return on assets costs for those asset classes, and allocated the costs for the relative use to deliver Standard Control Services and Unregulated Services.

For most asset classes, the control has been calculated as the cost (depreciation and ROA) of the shared assets apportioned in accordance with the proportion of employees involved in operations (of total employees) and the external usage percentage (based on external works as a proportion of the total works budget). The exceptions to this are the following asset classes:

⁸ In the Shared Assets Guideline the return on capital is defined as the return on capital calculated in accordance with the relevant distribution determination and the return of capital is defined as the depreciation calculated in accordance with the relevant distribution determination.

⁹ AER, *Shared Asset Guideline – Explanatory Statement, November 2013*. At page 31, the AER states that the “cost reductions may not reduce regulated revenues by more than the relevant shared assets earn from providing standard control services”.

- Fleet – the cost of fleet (ROA only¹⁰) is apportioned on the basis of the operations fleet percentage (of the total fleet costs) and the external usage percentage
- Fibre Optic – the cost of the fibre optic shared assets has been calculated as the cost (depreciation and ROA) of the shared fibre optic apportioned in accordance with the proportion of the regulated fibre optic assets used by Ergon Energy's telecommunications provider (Nexium).

The following table summarises the controls calculated for the shared assets.

Table 6: Calculation of Shared Assets Control, 2012-13, \$m nominal

Asset Class	Depreciation	Return on Assets	Total Control Cap	Notes
Buildings	0.11	0.17	0.28	Based on operational labour % and external works %
Software	0.01	>0.01	0.01	Based on operational labour % and external works %
Computer	0.04	0.01	0.05	Based on operational labour % and external works %
Office Machine	0.01	>0.01	0.01	Based on operational labour % and external works %
Office Equipment & Furniture	0.03	0.01	0.04	Based on operational labour % and external works %
Plant & Equipment	n.a. ¹	0.14	0.14	Based on external works %
Motor Vehicles	n.a. ²	0.13	0.13	Based on external works % and fleet allocation %
Fibre Optics	0.01	0.01	0.03	Based on fibre allocation %
Total Control	0.21	0.49	0.70	

1. Materials depreciation is included in charges to customers.

2. Fleet depreciation is included as an on cost to labour and thus treated as an operating expenditure item.

Appendix A details the assumptions and calculations of the controls.

3.6 Other adjustments as per current determination

As noted above, the Shared Asset Guideline only contemplates specific adjustments to the ARR for the use of shared assets. Ergon Energy currently applies a wider definition in adjusting the ARR for the use of assets that are used to deliver services other than Standard Control Services.

To ensure that customers are no worse off than under the current Distribution Determination, Ergon Energy proposes to make a further revenue adjustment for the use of the assets for providing services other than Standard Control Services, which are not captured by the Shared Asset Guideline. These services are:

- Alternative Control Services provided on a Fixed Fee or Quoted Price basis

¹⁰ ROA only is included in the adjustment, as the depreciation is included in the fleet on cost.

- Unregulated Retail Services provided by our wholly owned subsidiary, Ergon Energy Queensland Pty Ltd (EEQ)

We have determined the revenue adjustment on the same basis as that used for the current regulatory control period, which is consistent with the calculation of the control under the Shared Assets Guideline.

The following table summarises the ARR adjustments calculated for the balance of the use of RAB assets to provide certain Alternative Control Services and Unregulated Retail Services.

Table 7: Calculation of Adjustment for Alternative Control Services and Unregulated Retail Services, 2012-13 (\$nominal)

Asset Class	Depreciation	Return on Assets	Total	Notes
Alternative Control Services				
Buildings	0.29	0.47	0.76	Based on ACS allocation %
Communications	0.50	0.35	0.86	Based on ACS allocation %
IT Systems	0.15	0.02	0.17	Based on ACS allocation %
Office Equipment & Furniture	0.08	0.04	0.12	Based on ACS allocation %
Plant & Equipment	0.30	0.10	0.40	Based on ACS allocation %
Motor Vehicle	n.a. ¹	0.37	0.37	Based on ASC allocation % for Fleet assets
Unregulated Retail Services				
Buildings	0.59	0.96	1.54	Based on retail labour %
Software	0.07	0.01	0.07	Based on retail labour %
Computer	0.24	0.04	0.28	Based on retail labour %
Office Machine	0.06	0.01	0.07	Based on retail labour %
Office Equipment & Furniture	0.16	0.08	0.24	Based on retail labour %
Total Adjustment	2.43	2.44	4.87	

1. Fleet depreciation is included as an on cost to labour and thus treated as an operating expenditure item.

Appendix B details the assumptions and calculations of the revenue adjustment for RAB assets used to provide Alternative Control Services and Unregulated Retail Services.

3.7 Proposed revenue adjustment

The proposed revenue adjustment for the regulatory control period 2015-20 is the sum of the control for 2012-13 calculated in accordance with the AER's Shared Asset Guideline and the 2012-

13 adjustment calculated by Ergon Energy for the assets used to provide Alternative Control Services and Unregulated Retail Services, indexed using the forecast inflation rate¹¹.

The following table summarises our proposed revenue adjustments (decrements) resulting from the use of shared assets.

Table 8: Estimated revenue decrements for shared assets, 2015-20

\$m (2014-15)	2015-16	2016-17	2017-18	2018-19	2019-20
Adjustment for Shared Assets Unregulated Revenue	0.74	0.74	0.74	0.74	0.74
Balance of Adjustment as per Current Distribution Determination	5.13	5.13	5.13	5.13	5.13
Total Revenue Adjustment	5.87	5.87	5.87	5.87	5.87

Ergon Energy notes that this adjustment relates only to the shared assets that are currently in the RAB. For the regulatory control period 2015-20, new assets that are expected to be used for services other than Standard Control Services will be allocated between the relevant services in accordance with the cost allocation principles set out in the Ergon Energy CAM, which was approved by the AER on 15 August 2014.

¹¹ See supporting document 03.03.01 – Ergon Energy's building block components for details on how the forecast inflation rate was determined.

Appendix A – Calculation of control

The control for the Unregulated Services has been calculated with reference to the two main sources of unregulated revenue: Operations and Fibre Optic (EET). For each of these, we have:

- Identified the asset classes used to provide the services
- Determined an allocator to identify the proportion of the asset used to provide Unregulated Services
- Applied the allocator to the depreciation and return on assets to estimate the control

The following sections detail the calculations for each group of Unregulated Services.

A1. Operations

“Operations” refers to Unregulated Services other than EET, and includes Powerlink maintenance contract, workshops and recoverable emergency works. There are a range of assets used to deliver these Unregulated Services, including Buildings, Motor Vehicles, Plant and Equipment, Software, Computers, Office Equipment & Furniture, and Office Machines. The proportion of the cost of these shared assets used for Operations has been determined on the basis of allocators for labour and the works budget, as follows:

$$Control_{Operations} = \sum_{i=1}^n (Depreciation_i + ROA_i) \times Operations\ Labour\ \% \times External\ Works\ \% + ROA_{Fleet} \times Operations\ Fleet\ \% \times External\ Works\ \%$$

Where	Depreciation _i	= the 2012-13 depreciation for asset class I (other than Motor Vehicles)
	ROA _i	= the 2012-13 ROA for asset class I (other than Motor Vehicles)
	Operation Labour %	= the proportion of EECL employees involved in Operations
	External Works %	= the external Operations budget as a proportion of the total works budget
	ROA _{Fleet}	= the 2012-13 ROA for the Motor Vehicle asset class
	Operations Fleet %	= Fleet costs for Operations as a proportion of total Fleet costs

The above formula uses a two-step allocator for each asset class other than Motor Vehicle. It first determines the proportion of the cost that is attributable to Operations (the using the labour allocator) and then the proportion of that attributable to external (i.e. unregulated) works.

For the Motor Vehicles asset class, it uses a similar approach albeit with the relative fleet costs as the initial allocator. There is no depreciation component for the Motor Vehicles, as this is recovered through the labour on costs.

The ROA_i is calculated as follows:

$$ROA_i = WDV_i \times WACC$$

Where WDV_i = the 2012-13 written down value for asset class i

WACC = the 2012-13 WACC as per the current determination

The Operation Labour % is determined as follows:

$$Operation\ Labour\ \% = \frac{Number\ of\ Operational\ Employees}{Total\ EECL\ Employees} = \frac{1,247}{4,869} = 25.6\%$$

The External Works % is determined as follows:

$$External\ Works\ \% = \frac{Value\ of\ External\ Works}{Total\ EECL\ Works\ Budget} = \frac{\$52.4\ million}{\$1,438.0\ million} = 3.6\%$$

The ROA_{Fleet} is calculated as follows:

$$ROA_{Fleet} = WDV_{Fleet} \times WACC$$

Where WDV_{Fleet} = the 2012-13 written down value for the Fleet asset class

WACC = the 2012-13 WACC as per the current determination

The Operations Fleet % is determined as follows:

$$Operations\ Fleet\ \% = \frac{Operations\ Fleet\ Costs}{Total\ EECL\ Fleet\ Costs} = \frac{\$15.5\ million}{\$62.3\ million} = 25.0\%$$

The following table summarises the control calculations for the Operations.

Table 9: Calculation of Shared Assets Control – Operations, 2012-13

Asset Class	Component	2012-13	Rate of	Allocation %		Allocated
		Value (A)	Return % (B)	Employee / Fleet (C)	External Usage (D)	Value (A x B x C x D)
Buildings	Depreciation	11.32	n.a	25.6%	3.6%	0.11
	Net Book Value	189.39	9.72%	25.6%	3.6%	0.17
Software	Depreciation	1.30	n.a	25.6%	3.6%	0.01
	Net Book Value	1.15	9.72%	25.6%	3.6%	0.00
Computer	Depreciation	4.59	n.a	25.6%	3.6%	0.04
	Net Book Value	8.57	9.72%	25.6%	3.6%	0.01
Office Machine	Depreciation	1.17	n.a	25.6%	3.6%	0.01
	Net Book Value	1.67	9.72%	25.6%	3.6%	0.00
Office Equipment & Furniture	Depreciation	3.08	n.a	25.6%	3.6%	0.03
	Net Book Value	15.31	9.72%	25.6%	3.6%	0.01
Plant & Equipment	Net Book Value	40.57	9.72%	n.a.	3.6%	0.14

Asset Class	Component	2012-13	Rate of	Allocation %		Allocated
		Value (A)	Return % (B)	Employee / Fleet (C)	External Usage (D)	Value (A x B x C x D)
Fleet	Net Book Value	152.26	9.72%	25.0%	2.47%	0.13
Total						0.67

A2. Fibre Optics

“Fibre Optics” refers to telecommunications Unregulated Services provided by Ergon Energy’s subsidiary, EET. EET make use of the fibre optics installed on the Ergon Energy distribution network. The proportion of the cost of fibre optic used by EET has been determined on the basis of a unique allocator, as follows:

$$Control_{Fibre} = Depreciation_{Fibre} \times Allocator + ROA_{Fibre} \times Allocator$$

- Where
- Depreciation_{Fibre} = the 2012-13 depreciation for fibre optics asset class
 - ROA_{Fibre} = the 2012-13 ROA for fibre optics asset class
 - Allocator = the proportion of the regulated fibre optic assets that are used by EET, determined to be 0.23% for 2010-11

The following table summarises the control calculations for the Fibre Optics shared assets.

Table 10: Calculation of Shared Assets Adjustment for Alternative Control Services, 2012-13

Asset Class	Component	2012-13	Rate of	Allocation	Allocated
		Value (A)	Return % (B)	% (C)	Value (A x B x C)
Fibre Optics	Depreciation	6.35	n.a	0.23%	0.01
	Net Book Value	49.70	9.72%	0.23%	0.01
Total					0.03

Appendix B – Calculation of the adjustment for ACS

The following sections detail the calculations of the adjustments for Alternative Control Services and Unregulated Retail Services.

B1. Alternative Control Services

“Alternative Control Services” refers to those services classified by the AER as Alternative Control Services with the exception of public lighting and type 5 & 6 metering services. These services make use of some shared assets, including Buildings, Communications, IT Systems, Office Equipment, Plant and Equipment and Motor Vehicles. . The proportion of the cost of these shared assets used for Alternative Control Services has been determined on the basis of specific allocators, as follows:

$$Adjustment_{ACS} = \sum_{i=1}^n (Depreciation_i + ROA_i) \times ACS_{General} \% + Fleet\ ROA \times ACS_{Fleet}$$

Where	Depreciation _i	=	the 2012-13 depreciation for asset class I (other than fleet)
	ROA _i	=	the 2012-13 ROA for asset class I (other than fleet)
	ACS _{General} %	=	ACS revenue as a proportion of total regulated revenue, which was 2.54% in 2010-11
	Fleet ROA	=	the 2012-13 ROA for all fleet assets
	ACS _{Fleet} %	=	ACS fleet use (hours) as a proportion of total available fleet hours, which was 2.47% in 2010-11

The allocator used for the determining the relevant adjustment for the shared Buildings, Communications, IT Systems, Office Equipment and Plant and Equipment assets used to provide Alternative Control Services is based on the revenue for Alternative Control Services relative to all regulated revenue. This effectively assumes that the use of the assets reflects the proportional revenue received. The ACS_{General}% is determined as follows:

$$ACS_{General} \% = \frac{ACS\ Revenue\ 2010-11}{Total\ Regulated\ Revenue\ 2010-11} = \frac{\$24,496,861}{\$1,043,655,554} = 2.54\%$$

The allocator used for the determining the relevant adjustment for the shared Fleet assets used to provide Alternative Control Services is based on the use (measured in hours) of Fleet for Alternative Control Services relative to available Fleet hours. The ACS_{Fleet}% is determined as follows:

$$ACS_{Fleet} \% = \frac{ACS\ Fleet\ Hours\ Costed\ 2010-11}{Total\ Fleet\ Hours\ Available\ 2010-11} = \frac{75,786}{3,065,909} = 2.47\%$$

The following table summarises the adjustment calculations for Alternative Control Services.

Table 11: Calculation of Shared Assets Adjustment for Alternative Control Services, 2012-13

Asset Class	Component	2012-13 Value (A)	Rate of Return % (B)	Allocation % (C)	Allocated Value (A x B x C)
Buildings	Depreciation	11.32	n.a	2.54%	0.29
	Net Book Value	189.39	9.72%	2.54%	0.47
Communications	Depreciation	19.74	n.a	2.54%	0.50
	Net Book Value	143.48	9.72%	2.54%	0.35
IT Systems	Depreciation	5.88	n.a	2.54%	0.15
	Net Book Value	9.71	9.72%	2.54%	0.02
Office Equipment & Furniture	Depreciation	3.08	n.a	2.54%	0.08
	Net Book Value	15.31	9.72%	2.54%	0.04
Plant & Equipment	Depreciation	11.92	n.a	2.54%	0.30
	Net Book Value	40.57	9.72%	2.54%	0.10
Fleet	Net Book Value	152.26	9.72%	2.47%	0.37
Total					2.67

B2. Retail

“Retail” refers to the Unregulated Retail Services provided by EEQ. These services make use of some shared assets, including Buildings, Software, Computers, Office Equipment and Office Machines. . The proportion of the cost of these shared assets used for Retail has been determined on the basis of a labour allocator, as follows:

$$Control_{Retail} = \sum_{i=1}^n (Depreciation_i + ROA_i) \times Retail\ Labour\ %$$

Where

- Depreciation_i = the 2012-13 depreciation for asset class i
- ROA_i = the 2012-13 ROA for asset class i
- Retail Labour % = the proportion of retail labour as a proportion of the total EECL labour force

The allocator used for the determining the relevant adjustment for the shared Buildings, Software, Computers, Office Equipment and Office Machines assets used to provide Alternative Control Services is based on the relative number of employees used to provide Retail services. This effectively assumes that the use of the assets is driven by the number of employees. The Retail Labour % is determined as follows:

$$\text{Retail Labour \%} = \frac{\text{Number of EEQ Employees}}{\text{Total EECL Employees}} = \frac{253}{4,869} = 5.2\%$$

The following table summarises the calculations of the shared assets adjustments for Unregulated Retail Services.

Table 12: Calculation of Shared Assets Adjustment for Unregulated Retail Services, 2012-13

Asset Class	Component	2012-13 Value (A)	Rate of Return % (B)	Allocation % (C)	Allocated Value (A x B x C)
Buildings	Depreciation	11.32	n.a.	5.2%	0.59
	Net Book Value	189.39	9.72%	5.2%	0.96
Software	Depreciation	1.30	n.a.	5.2%	0.07
	Net Book Value	1.15	9.72%	5.2%	0.01
Computer	Depreciation	4.59	n.a.	5.2%	0.24
	Net Book Value	8.57	9.72%	5.2%	0.04
Office Machine	Depreciation	1.17	n.a.	5.2%	0.06
	Net Book Value	1.67	9.72%	5.2%	0.01
Office Equipment & Furniture	Depreciation	3.08	n.a.	5.2%	0.16
	Net Book Value	15.31	9.72%	5.2%	0.08
Total					2.21