

24 September 2021

Warwick Anderson
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Via email: AERPricing@aer.gov.au

Dear Mr Anderson

Standardisation of Ancillary Network Services model

Thank you for the opportunity to review and respond to the preliminary standardised Ancillary Network Services (ANS) model issued by the Australian Energy Regulator (AER) on 27 August 2021.

Essential Energy supports the AER's efforts to streamline the resources and consultation required to manage ANS models, particularly where standardisation enables stakeholders to more readily understand and review the services provided. This should also work to reduce the administrative burden on stakeholders and distributed network service providers (DNSPs) in the preparation and assessment of materials to support the regulatory assessment of ANS.

Pricing Methodologies

Essential Energy's ANS are typically bottom-up build cost models that develop prices for their ANS fee-based services and set the labour rates for their quoted services.

These service models use pricing methodologies that align into four categories:

1. Hourly Rate plus Materials / Contractor Oncost
 - a. Service costs are variable between projects and require costs build up based on labour / materials / contractors
 - b. Materials & Contractor Costs are costs +% added to service.
 - c. Costs are not quoted, rather hourly rates or percentages are applied.

Example: 5.1 Non- Standard Connections Services
2. Fixed Fee
 - a. Service costs remain relatively consistent, and a fixed fee can be estimated.
 - b. Service cost methodology includes build-up of labour, materials and contract costs used in service.

Example: 4.1 Access Permit
3. Contractor plus oncosts
 - a. Services are provided in part or completely by external contractor / consultants.

- b. Service cost methodology uses contractor / consultant costs with costs +%.

Example: 1.2 Special Meter Read

4. Amortised Service

- a. Services have asset installation (Capex) maintenance (Opex) and ongoing usage costs within the fee.

Example: 15.1 Security Lighting

General Comments

Essential Energy's 2019-24 ANS Models

The requirements for the 2019-24 ANS models was included in the RIN Oct 2017 document (section 13. & 14.). This requested historical operating costs, volumes and revenue has been included within each ANS service model. Essential Energy's ANS models also included a detailed breakdown of tasks / resource quantities and time, material items, usage charges etc. which provided granular information into the service costs components. The AER Standard model does not request this information, which could be used to provide further justification into the costs.

Quoted vs Hourly Rates

Essential Energy's non fixed fees are hourly rate services, rather than Quoted. This allows Essential Energy to apply the rates to services without a prior quote.

Services listed by Essential Energy

Each DNSP may have similar services in name / category, however, can vary in detailed underlying services and inclusions service offerings. Each DNSP may also have different operating environments such as Ring-Fencing controls, Contestable schemes and network arrangements.

Model Specific Feedback

The AER's standardised model has been reviewed and applied to several of Essential Energy ANS to understand the changes and impact to the service cost methodology. Table 1 contains some minor observations on issues identified in the application of the models.

Table 1: Model Specific Comments

AER Standard Model Tab	Essential Energy Comment
Output/ Quoted	Essential Energy has hourly rate services rather than Quoted Services. Charges are applied using actuals and hourly rates. Rates table should include Materials & Contractor %
Input / Indirect Cost Rates	Oncosts % vary between normal time and overtime Additional Overtime Oncosts required. Only one field available.

AER Standard Model Tab	Essential Energy Comment
Input/Labour Rates	<p>Other costs to include:</p> <ul style="list-style-type: none"> • Non-system Capex % in labour input • Materials % • Contractor % <p>Allocation of fleet based on labour</p> <p>Overtime rate requires Overtime multiplier to be added in rate, rather than built up from business hours base rate</p>
Input/Fee Based	<p>Additional Labour Categories will be required. Only 4 available (2 non field and 2 field based). Essential Energy services extend beyond 2 of each category.</p> <p>EE Materials (column Q) can be materials cost + % rather than value.</p> <p>Contracts (Column R) does not input into Tab Calc Fee Based Column Y</p>
Input/Historical Based	<p>Previous ANS Model has also included historical operating costs & revenue along with volumes.</p>
Calc / Fee Based	<p>Column Y incorrectly references Tab Input/Fee Based "Other" (Column S) rather than Contracts (Column R)</p>
Calc/Labour Rates	<p>Costs to include:</p> <ul style="list-style-type: none"> • Materials % • Contractor %

Overall, Essential Energy does not have any substantive concerns with the preliminary model, apart from the comments made above. As the ANS information for the 2024-29 regulatory period is developed and modelled, there is a potential risk of issues with the ANS model being revealed. We recommend that the AER is cognisant of this and remains flexible with the initial model in use.

Essential Energy looks forward to working with the AER on the standardised ANS models. If you would like to clarify or discuss any aspects of this response please contact our Head of Commercial Development, Andrew Hillsdon on [REDACTED]

Yours sincerely

[REDACTED]

Natalie Lindsay
Head of Regulatory Affairs