AUSTRALIAN ENERGY REGULATOR

MEETING RECORD (formally Note for File)

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| 1. DISCUSSION WITH: | 1. Ergon Energy |
| 1. TRACKIT: | 1. 50557 |
| 1. DOC. NO.: |  |
| 1. DATE: | 1. 30/09/2013 |
| 1. OFFICER: |  |
| 1. VENUE: | 1. Melbourne office / Phone hookup |

1. PURPOSE: Meeting to discuss preliminary thoughts on draft economic benchmarking RIN
2. ATTENDEES: AER – Mark McLeish, Andrew Ley, Sam Sutton, Jason King, Paul Dunn, Kevin Cheung
3. Ergon Energy – Kim Casey, Gary Duffle, Lisa Harry, Paul Reynolds, Kylie Douglas

## SUMMARY OF DISCUSSION:

1. The meeting with Ergon Energy discussed the following key issues relating to the draft economic benchmarking Regulatory Information Notice (RIN):

* audit requirements
* data estimation and worksheet specific inputs.

1. A summary of each key issue is discussed below.

### Audit requirements

1. Ergon Energy noted that it would be unable to complete the director’s sign off without an audit being undertaken, which meant that they would not be able to comply with the AER’s adjusted timeframe in the draft RIN. That is, they would need to have the data audited by 18 February.
2. Ergon Energy identified two major issues that affect its ability to provide the data in the time required:
3. Change in systems (c. 2006)
4. Change in service classification (QCA classifications were different)
5. Notwithstanding this, Ergon Energy said it would be able to complete the templates. However, where detailed historical data isn’t available an audit of the results may not be possible.
6. Ergon Energy noted the RIN required actual data in some circumstances where only estimates are possible. An example of this was line losses was inherently an estimate. Ergon Energy noted since the RIN requested actual data, Ergon Energy would technically not be in compliance since the data was an estimate and would not pass an audit.
7. AER staff considered this should be accounted for in the final RIN and requested Ergon Energy to provide a list of variables that could only be provided as an estimate.
8. Ergon Energy noted that it was not in a position to provide unaudited data to the AER since it would be used for determinations. This would mean Ergon Energy would have difficulty in meeting the February deadline in providing data.
9. AER staff noted the February deadline would allow the AER and stakeholders time to assess the robustness of the data and ensure the DNSPs were providing broadly consistent data sets.
10. Ergon Energy noted only its audited data should be made publicly available and its Board would not sign off on unaudited data. This is because the Auditor assures the Board of the reasonableness of the data so the Board can take comfort that it is signing off on reasonable data. Ergon Energy was unsure if its CEO would be willing to sign off on data that had not yet been audited.
11. Ergon Energy noted that in the annual performance RIN, the statutory declaration and audit requirements do not overlap, which is in contrast to the EBT RIN, which has a statutory declaration and audit requirements over all data.
12. AER staff noted the importance of obtaining the data early to allow enough time to validate the data but noted Ergon Energy may not necessarily be able to sign off on data before it has been audited.
13. In light of suggestions from Ergon Energy, AER staff considered that the due date for audited data would need to be brought forward from May 2014 to April 2014 such that data could then be published with sufficient time for cross submissions. AER staff invited submissions on Ergon Energy’s concerns.

### Data estimation and worksheet specific inputs

1. Ergon Energy requested guidance on what to do if the data could not be provided. AER staff considered Ergon Energy should take reasonable steps to estimate the data.
2. Ergon Energy noted the annual performance RIN contained a clause that allowed Ergon to explain why data could not be provided. AER staff noted it was important for NSPs to provide all of the data and was hesitant to include a clause which would allow NSPs to not provide data.
3. Ergon Energy noted that the annual performance RIN has a ‘please explain’ process where data cannot be provided. Ergon Energy stated that there were not many cases where it could not provide anything, but did consider that DPA0502 would be one such variable where it would not be possible to provide anything meaningful. Ergon Energy said there may be some others but it had not gone through the entire RIN as yet. AER staff encouraged Ergon Energy to notify the AER as soon as possible if this was the case.
4. Ergon Energy requested clarification on what was included in standard control services and network services.
5. AER staff noted network services will provide a basis for consistent comparisons between DNSPs and would further clarify the services included as a part of network services. AER staff also noted the Queensland framework and approach paper provided a list of services that are a part of network services. Ergon Energy asked whether the list of services in its latest determination was appropriate. AER staff confirmed this would suffice.
6. Ergon Energy noted for some variables data was not collected, for example opex and revenue for high voltage customers was likely to not be useable.
7. AER staff considered more thought may be needed in considering the trade–off between obtaining poor data that is unlikely to be reflective of the true value and the materiality of the variable.
8. AER staff also clarified that where data was not relevant it could be greyed out in the workbook. However, the AER considered where data was relevant but not available should not be greyed out and will make changes to the RIN to ensure that only non-relevant data is to be greyed out.

### Operating expenditure

1. Ergon Energy requested clarification on how to input data for current cost allocation methodologies (CAMs) and historical CAMs and if historical data would need to be restated using current CAMs.
2. AER staff noted sections 3.1.1 and 3.2.1 of the opex worksheet required the DNSPs current CAMs and if the CAMs have changed overtime, this section would require an estimate of the DNSPs current CAMs. AER staff also noted that may only have an impact on DNSPs that have materially changed their CAMs over time. Sections 3.1.2 and 3.2.2 require the DNSPs actual CAMs in that period.
3. AER staff will also add instructions to clarify how DNSPs can allocate between Standard Control Services and Alternative Control Services.

### Operational data

1. Ergon Energy requested clarification on the meaning of off-peak, peak and shoulder periods.
2. AER staff noted these periods related to the DNSPs own charging periods and should be consistent between the operational data and revenue worksheets. Differences across jurisdictions did not matter in this circumstance.
3. Ergon Energy noted they did not record maximum demand in MVA terms. AER staff noted the MW to MVA power factor conversion variables were omitted from the operational data worksheet. The definition was available on the variables and definitions worksheet and if MVA data was unavailable the power factor would require an engineering estimate at each voltage level. The power factor conversion would be moved from the definitions sheet to the operational data sheet for the final RIN.
4. Ergon Energy also requested clarification on weather adjustments and terminal station maximum demands. AER staff noted the weather adjustments were to be calculated at the 10 per cent and 50 per cent probability of exceedence levels and the terminal station was the point in which distribution connected to the transmission network.
5. Ergon Energy noted terminal station data was available and weather adjusted data could be estimated going back.
6. Ergon Energy noted that ‘energy not supplied’ would have to be an estimation and would likely continue to be going forward. The AER might need to consider how it can word the explanatory statement and RIN better to account for these kinds of situations, particularly given that auditors need to ensure that NSPs are complying with the templates.

### Operating environment factors

1. Ergon Energy requested clarification on the vegetation encroachment variables.
2. AER staff noted the intention of the variable is to capture the drivers of vegetation encroachment which were considered to be terrain, growth rate and legislative requirements. AER staff further noted the issue of operating environment factors was important and Ergon Energy should consider any other circumstances that should be captured in the vegetation encroachment variables or if the definition should be refined to capture other factors.
3. Ergon Energy noted they kept detailed terrain data meanwhile other DNSPs such as Energex did not breakdown their terrain in similar categories. Ergon Energy also noted vegetation management was based on an urban/rural split.

### Quality of services

1. Ergon Energy stated that it would likely have some issues with STPIS data prior to 2006 due to cleansing of outages.

### Confidentiality

1. Ergon Energy queried whether the confidentiality requirements in the RIN would be linked to the current Confidentiality Guideline, noting that the current performance reporting RIN does this. AER staff confirmed they would follow this up, but advised that due to the data requirements being relatively high level, the AER would not expect many claims for confidentiality.

### Other issues

1. Ergon Energy considered obtaining the contacts for subject matter experts would assist Ergon Energy in checking the accuracy of estimation methodologies before they are applied. This approach may increase the accuracy of the estimation methodologies employed by the DNSPs.
2. AER staff agreed this is a good approach but considered most of the estimation issues should be agreed upon and set out in the final RIN. AER staff also noted the DNSPs would have flexibility over their estimation method which would be based on the data available to the DNSPs.
3. Ergon Energy asked if word documents could be provided in support of their assumptions.
4. AER staff considered word documents were appropriate and would amend the RIN to allow word documents to support estimation assumptions.