AUSTRALIAN ENERGY REGULATOR

MEETING RECORD (formally Note for File)

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| 1. DISCUSSION WITH: | 1. Networks NSW |
| 1. TRACKIT: | 1. 50557 |
| 1. DATE: | 1. 03/10/2013 |
| 1. OFFICER: |  |
| 1. VENUE: | 1. ACCC Melbourne office / by telephone |

1. PURPOSE: Meeting to discuss preliminary thoughts on draft economic benchmarking RIN
2. ATTENDEES: AER – Mark McLeish, Andrew Ley, Kevin Cheung, Sam Sutton, Jason King, Paul Dunn
3. AusGrid –Zubin Meher-Homji
4. Endeavour –Patrick Duffy, Matt Macquarie,
5. Essential – Catherine Waddell,

## SUMMARY OF DISCUSSION:

1. The meeting involved discussion of the following key issues relating to the draft economic benchmarking Regulatory Information Notice (RIN):

* audit requirements, directors / relevant officer of the company signoff
* data estimation and worksheet specific inputs.

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

### 1 Assurance and director sign off

AER staff explained the design of the written RIN, noting that recent feedback from earlier bilateral meetings suggested that:

* more time needed to be provided for NSPs to transition from estimating data to producing data according to the RIN given that time would be required to put systems in place.
* the timing in the draft RIN would lead to the AER putting data that had not been audited being publically released for cross submissions and that there would be merit to changing the timeframes and certification requirements to address this.

1. In the context of that discussion, NSPs raised the following points / suggestions for the economic benchmarking RIN:

* directors/CEO/CFOs would not be comfortable with signing off on data without that data being audited.
* there might be a legal impediment to requesting information on a staged basis through a RIN.
* it might be best to provide information on an informal basis for the data testing and validation process.
* The AER might find it difficult to find a statutory declaration wording that satisfies all NSPs.
* The AER should set out how it envisaged how the process for revision would operate where the testing and validation process (or cross submissions) identified an error or amendment to be made.
* NSPs would prefer data to be made available for preparation of regulatory proposals.
* NSPs may need to rely on the ‘reasonable excuse’ provision in the NEL if they could not provide the data, but they take RIN compliance seriously.

1. In light of suggestions from NSPs, 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.
* an option is no sign off but AER staff wishes to explore all available options and welcomed suggested statutory declaration wording from the DNSPs.
* other NSPs did not want the AER to publish unaudited data so it would be difficult to provide the information to the NSW DNSPs prior to preparing their regulatory proposals, but participation in the cross-submissions process would nevertheless be beneficial.

### 2 Historical data

1. Endeavour submitted that:

* they will have a lot of difficulty to provide historical data back to 03-04 but after that it is an achievable exercise.
* A more minor point is that the category ‘Node’ goes into off peak but not all controlled load is in the offpeak time. Endeavour is able to match a category provided to IPART – and this category can have its own category but we would have it out separately but it is not a major point of contention

1. Essential submitted that it would be difficult to publish data before 2005 due to the merger with Australian Inland Energy.
2. Endeavour submitted that historical data beyond 7 years could be estimated, but it would be difficult to provide actual data.

### 3 Data categories and definitions

#### Revenues

1. AER staff outlined the changes made to the revenue templates in light of submissions on the preliminary RIN.
2. NSPs noted the explanation of the treatment of controlled load, however suggested that it might be better accommodated as a separate line item. The term ‘controlled load’ is a sufficient description – relating to energy supplied where the NSP controls the time when energy delivered.
3. The NSPs queried whether network services should be direct control services. Further, they noted that it wouldn’t be useful to have alternate control services if this data can’t compare this data between networks. They also queried how the AER will compare some data such as connections.
4. The NSPs queried what would happen happens to unregulated output that is not defined.
5. AER staff noted that:

* network services are typically regulated through price caps etc - it is a subset of standard control services.
* The AER could ask for the unregulated data but it won’t be a full picture
* The collection of standard control, and alternative control data will enable reconciliation with regulatory accounts and allow for the accommodation for the changes in the classification of services over time.

1. NSPs noted that revenue data might incorporate components of revenue for non-network services. AER staff acknowledged this point, and noted that as the revenue data is requested for the purposes of weighting outputs and costs are generally pro-rated across tariff categories, this should not be an issue.

#### Operating expenditures

1. Some NSPs were concerned that they can’t back-cast changes in the CAM and questioned whether the change in cost allocation approach would make a material difference.
2. NSPs submitted that they could not split customers in accordance with the locational categories.

#### RAB assets

1. AER staff discussed changes to the Assets (RAB) worksheet. This included redefining the term ‘subtransmission’ to ‘assets 66kV and above’. A further proposed recategorisation to include ‘assets 33 kv and above’ was discussed. NSPs noted that they can provide 33kv assets separately.
2. AER staff further discussed additional clarification provided in relation to calculating past RAB asset values and also in relation to calculating average asset lives. The NSPs said they would seek additional feedback in relation to these calculations for the RAB asset worksheet in the workshop next week with Denis Lawrence.

#### Operational data

1. Essential Energy submitted that they are uncertain as to why the AER is collecting energy input into a NSP’s network and concerned with how the AER may use the data.
2. AER staff noted the power factor conversion will be added for each year to the operational data worksheet and currently it was only on the variable and definitions page.

#### Physical assets

1. AER staff noted changes to the physical assets worksheet, including: removal of the term subtransmission from some of the categories; clarification of the term MVA ratings with added explanation that the AER is after high level estimation of this based on the businesses’ engineering experts’ and clarifying the definition of length.
2. There were no comments from NSPs in relation to the proposed changes outlined for the physical assets worksheet.

#### Quality of services

1. NSPs questioned the need to report distribution losses as these are largely outside of the control of the network.
2. AER staff noted that minimising losses might be construed as a component of the service that NSPs provide.
3. NSPs questioned the need to collect energy not supplied. AER staff noted that this is often considered a better measure of network reliability than SAIDI and SAIFI. NSPs noted that the provision of energy not supplied data historically could be difficult and would require some assumptions.

#### Operating environment factors

1. NSPs questioned the need to include vegetation management given that it was competitively tendered.
2. AER staff noted that data was collected on vegetation management for the purposes of category analysis which could facilitate its potential exclusion. However, for an overall measure of network efficiency it is necessary to incorporate costs of vegetation management.
3. NSPs noted that they would consider the definitions of operating environment factors intended to account for the costs of vegetation management.
4. NSPs submitted that it will be difficult to get data on environmental factors from their contractors.
5. Ausgrid asked whether the RIN just applies to Ausgrid distribution or whether it applied to transmissions assets. AER staff stated that they were pretty certain that the RIN was intended to apply to all of AusGrid’s assets.

### 4 Other Issues

1. The NSPs queried whether TFP was worthwhile analysis given that it is an industry with long capital life cycles and that all the answers that the AER are after will not emerge from economic benchmarking or category benchmarking. AER staff noted that a number of techniques that may be used when undertaking economic benchmarking, including econometric methods that can hold capital fixed and just analyse opex efficiency and opex partial productivity growth.
2. The NSPs also queried:

* What the threshold for providing a best estimate is and what the threshold for not providing any data at all is.
* What happens if they find that they can’t provide the data in the process of completing the templates

1. The NSPs submitted that they would like to establish a process with the AER in the event that they find they can’t make an estimate of data after the RIN is issued.
2. The NSPs asked whether they will be provided with more information about the economic benchmarking model. AER staff pointed out that a lot of information (including the model) has already been provided in the seven workshops and the documents and that there would be no further material released until the AER calculated provided its initial views in 2014.