AUSTRALIAN ENERGY REGULATOR

MEETING RECORD

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| 1. DISCUSSION WITH: | 1. Electricity Network Service Providers |
| 1. TRACKIT: | 1. 50557 |
| 1. DATE: | 1. 17/12/2013 |
| 1. OFFICER: |  |
| 1. VENUE: | 1. ACCC Melbourne office / ACCC Sydney office by VCU |

1. PURPOSE: Meeting to discuss draft RINs for category analysis.
2. ATTENDEES: See attachment A

## *SUMMARY OF DISCUSSION:*

This meeting discussed the data requirements of the draft RINs for category analysis issued on 6 December 2013. The meeting ran from 9:30 am to 1:00 pm and was chaired by Lawrence Irlam of the AER. This summary outlines the key topics and themes of the meeting, including views expressed at the meeting. The outline broadly follows that of the agenda.

### Objectives and general comments

At the commencement of the meeting, AER staff indicated that the main objectives of the meeting were:

* allow businesses to ask questions about the data required and to clarify areas of uncertainty
* identify areas for further discussion and a process for this to occur
* generally establish a process whereby written submissions on the draft RIN were as complete and effective as possible, noting that there would be limited time to consult after this point
* where possible, avoid issues raised and addressed in prior consultation on the expenditure forecast assessment guidelines
* not cover matters specific to draft RINs issued on the NSW/ACT NSPs and Transend (“reset RINs”) as this would be dealt with through a separate process.

It was noted that a summary of discussion would be published. AER staff also clarified during the meeting that the views expressed and amendments to the RINs would be subject to AER Board approval.

AER staff indicated that, where possible, NSPs should consider trying to form a common viewpoint on particular issues in submissions to the draft RINs.

AER staff then worked through the common data requirements and data requirements specific to each expenditure category.

### Input cost tables and reconciliation

AER staff gave a brief overview of the common input data required across expenditure categories including expenditure on labour, materials and contracts. AER staff covered the labour tables in some detail and made clear these did not apply to supply contracts (other than pure labour hire/supply). Staff also explained that the intent of the labour tables was to collect a high level metric of the cost of labour in different expenditure categories for assessment of forecasts against past expenditure and to allow for benchmarking of labour costs across NSPs.

NSPs provided the following comments:

* some NSPs did not capture labour expenditure data in this way and reporting information as requested in the labour tables would have gaps
* assumptions may be required to complete some elements of the labour tables (for example, hours paid not worked and stand-down periods)
* NSPs may record total labour hours against work/expenditure categories, but not ASLs
* reporting aggregated labour information in this format may be feasible however breaking this down into the major categories would be difficult, and may be based on their approved cost allocation methodologies
* some NSPs contract out virtually all work and will have very little expenditure reported as direct labour and reflected in the labour tables
* different utilisation of direct labour (i.e. internal labour including labour hire) versus contracting out of work activities will mean the AER may not get labour cost data that is suitable for benchmarking
* guidance was needed on the AER’s expectations of labour categorisations (e.g. occupation types and pay grades).

AER staff commented in response:

* different use of internal labour versus contracting out of entire activities should be able to be taken into account when benchmarking labour expenditure
* ASLs should be directly related to total ordinary hours worked in an expenditure area
* staff looked forward to having further discussions with individual businesses on what can be done to complete the labour tables and areas of concern or lack of clarity.

### Replacement capex

AER staff introduced the repex data requirements applying to sheets 2.2 and 5.2 of the distribution and sheet 2.2 and 4.1 of the transmission category analysis RINs. AER staff noted that the data is required for benchmarking, repex modelling and trend analysis in accordance with the assessment techniques noted in the expenditure forecast guidelines.

The AER had developed a set of standardised asset categories and required the following data for these standard asset categories:

* Age profile data of existing asset inventories
* Asset replacement and failure volumes
* Unit costs.

The major changes made from the indicative templates released in August were:

* removing the requirement for material/labour costs splits for each asset category to requiring the splits only at the asset group level
* removing asset groups for SCADA and Protection for distribution and IT and Communications for transmission (to non-network expenditure).
* prescribing a methodology for calculating standard lives in the event of asset sub-categorisation.

AER staff noted a key issue in consultation prior to the draft category analysis RIN was considering whether to combine transformers and switchgear into a “distribution substation” group. AER staff pointed out that although substations are installed as a single unit, the material components of the substation, transformers and switchgear can vary in standard life significantly. NSW DNSPs noted that asset life estimates would rely on arbitrary splits of historical substation replacement data between these two asset groups which could lead to incomparable data for benchmarking. AER staff noted that the AER will be in a position to compare NSPs methodologies for estimation and determine the degree of comparability. Subsequently the AER has decided to keep the asset groups separate.

AER staff clarified some points raised by NSPs since publishing draft category analysis RIN:

* The category analysis RIN data will be the same input data required for the repex model
* There are no expectations at the AER staff level for the repex model to change substantively in the immediate future
* NSPs will be required to provide populated versions of the repex model as part of their regulatory/ revenue proposals.

AER staff noted that appendix A.1 and A.2 of the explanatory statement to the category analysis RIN provide detailed asset definitions, classifications and changes from the indicative template for each asset group.

Victorian DNSPs questioned the comparability of historical and forecast unit costs, noting that the forecast unit costs are derived from bottom-up builds which did not necessarily match the AER’s categories. This would also create an issue in aggregating and reconciling historic expenditure (i.e. a “balancing item” would be required). AER staff questioned whether the methodologies applying to the bottom-up builds would be able to be applied when considering actual costs incurred in accordance with the repex asset categories. They also questioned the extent to which this was a problem, namely which/ how many asset categories.

It was noted that the categories created a potential overlap of activities/ costs for different service classifications that may be captured elsewhere in the templates.

Victorian DNSPs enquired to why the asset categorisations for pole-top structures had changed from the indicative template, noting they had done considerable work to align the data they provided for the repex model as part of their last price determination. AER staff noted that the pole-top structure asset categorisations have changed in accordance with feedback on provided by NSPs across the NEM. AER staff noted that the position on pole-top structures has been considered at length and was a potential area where DNSPs could liaise to present a common suggestion. It was noted that a complete set of asset categories was presented by the ENA earlier this year, however this was not accepted by the AER (on the basis that it did not capture assets at sufficient detail). TNSPs raised questions around the coverage of the “steel towers” and “tower structures” categories (e.g. where earthing and poles would be included) and also suggested the labelling of these categories be reconsidered in light of their definitions.

The general concern from Victorian DNSPs about changing categories from those used in recent years was noted in previous workshops.

### Demand forecasting

ElectraNet noted (consistent with a previous workshop) that it obtains connection point demand data from the DNSP associated with those connection points, and that it should not be required to provide these data to avoid duplication. It was noted that amendments to the RINs to reflect this would be required.

NSPs asked whether the RINs require more than five years of historical demand data, as the demand templates appear to indicate. AER staff clarified that the templates should only require five years of historical demand data, and that providing demand data dating back more than five years is optional.

NSPs asked for clarification on how they should report the ‘Adjustments’ sections in the spatial demand RIN templates. For example, should embedded generation be a negative number? AER staff noted the adjustments should not be reflected in the raw demand data NSPs report. NSPs should report raw demand data without adjustments. The data in the ‘Adjustments’ sections would be considered when processing the data, for example, in the weather correction and forecasting processes.

TNSPs also asked for clarification on the need to provide embedded generation data, noting that TNSPs do not normally have visibility on such data. AER staff noted its understanding that TNSPs account for the effects of embedded generation on its demand forecasts. AER staff will clarify this issue in greater detail in bilateral discussions with TNSPs (and through their submissions, where they raise this issue).

NSPs noted ratings definitions will need to be clarified. AER staff stated it welcomes detailed discussions on such issues through bilateral discussions and through submissions on the draft RINs.

### Augmentations capex

AER staff noted the draft RIN templates collect augex project data. However the reset RIN templates for DNSPs also collect data for the purposes of populating the augex model. The meeting focused its discussion on augex project data templates.

AER staff noted the augex project data templates collect expenditure and other information on the major cost items in augmentation projects. Among other applications, AER staff want to use augex project data to develop benchmarks for assessing augex projects, such as:

* $ (transformers) per MVA added, for given voltage levels
* $ (labour) per km line added, for given voltage levels.

AER staff noted the draft augex project templates incorporate discussions during consultation on the indicative templates. Changes and/or clarifications from the indicative templates include the following:

* the augex project data templates require less detailed or aggregated data for lower levels of the network (such as distribution substations and LV feeders) compared to higher levels of the network (such as transmission lines and substations)
* NSPs must report detailed data for augex projects above the $5 million materiality threshold
* NSPs must provide augex project data on an ‘as commissioned’ basis. This is because deriving augex benchmarks, as discussed previously, requires expenditure and other data for the entire project.

NSPs noted the augex project data templates may disclose potentially confidential procurement information. AER staff noted the AER’s confidentiality guidelines will guide the treatment of confidential information NSPs provide in RINs, and that resolving confidentiality issues early (including during consultation on the RINs) would be critical in enabling the AER to release datasets in a timely manner for the benefit of all stakeholders.

One NSP commented that the labelling of the templates was confusing, particularly the omission of template 2.4 from the category RIN which requests data for the augex model (which is in the reset RINs), and hence the purpose of information in template 2.3 (augex project data). AER staff undertook to revisit the RINs to ensure this distinction was clear.

DNSPs noted the augex project data templates request the number of towers added and towers upgraded, respectively, for augmentation projects on HV feeders. Providing this data would be a resource intensive exercise as it would require DNSPs to investigate all individual HV feeder projects over the last five years. DNSPs suggested requiring such data only for projects with total expenditure above $1 million. AER staff considered such a requirement may detract from robust analysis, for example, whether assessments of projects above the $1 million threshold would extend or be extrapolated to those below the threshold. To assist the AER in considering this issue, AER staff suggested the DNSPs provide information on the percentage of HV feeder projects above the $1 million threshold and also questioned the extent to which projects would be heterogeneous below and above particular materiality thresholds.

Several DNSPs stated the augex project data templates require considerable information and asked whether the AER has quantified the benefits of requesting such information. AER staff noted the explanatory statement to the expenditure guidelines addressed this issue and encouraged NSPs to quantify the burden of information requirements for the AER’s consideration, rather than simply suggest that the cost impact was significant. One NSP questioned the value in providing cost information given the AER appears to have the view that the benefits of its approach are considerably large and would justify any cost to implement. AER staff noted that the information requested in the augex project data templates in the draft RINs was a good example where requirements had been significantly reduced, in part on the basis of information on the cost burden provided by several NSPs. For example, the templates no longer require augmentation information on HV feeders, LV feeders and distribution substations on a project by project basis. Rather, the tables now require information on such augmentation works at an aggregate level. A DNSP indicated it is likely include the costs of providing the requested information as an opex step change in its regulatory proposal. Other NSPs indicated they may not be able to estimate cost impacts at this time.

Several TNSPs stated providing information required by the augex project templates still require considerable resources. However, they also commented the templates are heading in the right direction compared to the indicative templates.

### Connections and customer driven works

AER staff noted that worksheets relating to prescribed transmission connection projects have not changed since the drafting of indicative category analysis templates. AER staff stressed that future assessments of prescribed transmission connection projects would rely on data provided in detailed business cases and project cost build-ups.

TNSPs commented on the following:

* Whether the definition of direct material and direct labour cost categories would capture all the expenditure associated with prescribed transmission connection services
* the distinction between underground and overhead connections was redundant as all prescribed transmission connection projects were considered to be above ground
* the AER should clarify whether costs to be reported were on the basis of ''as commissioned'' or ''as incurred''
* expenditure related to connection projects would likely be claimed as confidential as this was likely to be work which was tendered out. Additionally, the templates could provide a feature whereby NSPs could flag which data were subject to confidentiality claims.

AER staff undertook to reconsider the definition of direct material and labour expenditure categories and consider whether any additional categories need to be added. AER staff questioned whether any distinction between underground or overhead was necessary for segments of prescribed connection projects and would consider excluding the categorisation of connections as either overhead or underground. AER staff considered that the templates may need to record costs as-commissioned, consistent with the reporting of costs for augmentation projects.

AER staff noted a number of amendments made to the category analysis RIN templates applicable to DNSPs since releasing the indicative RIN templates in August. These included:

* Adding new categories of high voltage and sub-transmission connection projects to template 2.5 to distinguish more bespoke connection works from routine works which may be benchmarked.
* Added more detail of descriptor metrics for key inputs of large-scale connection projects, including volume and total expenditure for substations and augmentation works. This would allow the AER to distinguish the scale and scope of these projects when performing benchmarking analysis of DNSPs across the NEM.
* Measures of quality of supply for templates 2.5 (connections) and 4.1 (public lighting works). This would assist in benchmarking the performance of DNSPs across the NEM.
* Adding meter type categories 1-4 to capture activities related to smart meter infrastructure. This was added on request of Victorian DNSPs who were concerned that the indicative RIN templates did not capture these types of activities.
* Simplified the categories in template 4.1 to record the average unit cost for performing installation, repair and maintenance of public lighting infrastructure. AER staff stressed that this was consistent with the basis of pricing of public lighting services as per prices listed in DNSPs' annual tariff proposals.
* Given DNSPs discretion to list and describe fee-based and quoted services in templates 4.3 and 4.4.

DNSPs raised the following issues:

* clarification was required on whether the category RINs would capture data related to connection works that were tendered in a contestable market
* cost reporting systems were not set up to record the volume and total expenditure of substations and augmentation works that were related to connection works
* clarity was sought about the intent to collect expenditure related to meter types 1–4, given that services for these meter types are not regulated (in Victoria) and are subject to competitive tendering.

In response, AER staff commented that it was not envisaged that the templates would capture data related to connection services that were provided in a truly contestable market. AER staff also undertook to resume discussions with DNSPs' technical staff to determine the limitations of DNSPs reporting data against asset categories and work activities. They also undertook to revisit whether services related to smart meters, which are captured as meter types 1–4, are competitively tendered.

### Maintenance expenditure

AER staff briefly noted that the draft RIN seeks information on key maintenance activities rather than detailed asset types as per the indicative templates released in August. The RIN retains the distinction between routine and non-routine activities.

A DNSP inquired about the ‘physical measure’ for assets, where the template states ‘by zone substation’ or ‘by distribution substation’ (for example, the number of pole tops maintained by zone substation). AER staff clarified that for each maintenance activity, only the total number of assets for each activity is required, and not the number of assets per substation.

A TNSP commented that different assets in the same asset group may have different inspection/ maintenance cycles. AER staff clarified that only the average cycle length may be acceptable.

DNSPs noted that public lighting services are classified as alternative control services in some jurisdictions, and as unregulated services in others. AER staff undertook to reconsider the instructions for the template.

A TNSP recommended that maintenance for steel towers and tower structures be combined. AER staff considered this may be reasonable.

### Emergency response expenditure

AER staff noted that the template for emergency response now only collects three expenditure items, namely total emergency response expenditure, expenditure for severe weather events and “other”.

DNSPs inquired how the AER defines severe weather events, and AER staff clarified that these refer to Major Event Days (MED) reported under STPIS. NSPs noted some concerns about determining which costs are associated with MEDs, since these are determined long after the event. They also expressed concerns on how to capture MED-related expenditure, and whether these would reflect ongoing expenditure in response to damage caused by events such as cyclones. AER staff considered that reporting expenditure against MEDs would be particularly important and useful for considering reliability related impacts.

Some DNSPs commented that aside from MEDs, there are other weather-related expenditure that contribute to unpredictable expenditure. AER staff commented that these non-MED related expenditure is expected to be minor and should not greatly affect the stable component of emergency expenditure.

It was also noted that some emergency response expenditures are capitalised.

### Vegetation management

AER staff briefly noted that the draft RINs request data on key vegetation management activities and a commonly used metric in “maintenance spans”, whereas the indicative templates attempted to approach these costs in terms of drivers such as vegetation growth rates, rainfall and sunshine (which raised significant concerns amongst NSPs). Collecting information by vegetation management zone was also a feature of the draft RINs.

Comments from NSPs were:

* contractors are typically the custodians of this information rather than NSPs
* vegetation management zones may be recorded by bushfire risk areas for some NSPs
* these activities tend to be contracted out, and the cost may be recorded as a lump sum
* NSPs questioned whether the approach adopted for economic benchmarking would be allowed here, namely allowing the estimation of data for initial years before requiring actuals to be reported.

NSPs raised a common concern around estimating the number of trees per span. Some TNSPs questioned how the number of trees can be normalised across NSPs, given that there are various types of trees for each NSP area. NSPs also questioned the methods of estimation presented in the RIN instructions, and given the discretion noted that different results would affect benchmarking analysis. AER staff noted that these methods were drafted in light of advice from experts in the field and invited NSPs to consult with their own contractors and provide responses in their written submissions.

### Non-network expenditure

AER staff gave a brief overview of the required data.

NSPs commented that it is unclear why protection systems have been separated out from repex, and they would prefer these to be included in the repex category. AER staff did not consider this unreasonable.

It was noted that the required detail on vehicles expenditure may not be worth the effort given the small expenditure involved. AER staff responded that it would not be onerous to provide this data and the information would be useful in understanding the different activities and costs incurred by different NSPs. The issue of some NSPs outsourcing fleet activities and the potential impact on benchmarks was noted.

### Overheads

DNSPs noted that the written RIN requires the reconciliation of statutory and regulatory accounts for every variable, while the overheads template no longer requires the reconciliation. AER staff noted this and will revisit the template instructions to clarify the requirements for reconciliation.

DNSPs noted that overheads were the result of different organisational structures. AER staff recognised this and clarified that the overheads templates allow NSPs to add rows to reflect cost items appropriate to their individual circumstances.

One NSP noted that it allocates overheads to direct expenditure, however, these costs could be extracted to comply with the template requirements. This would result in a lack of comparability with costs reported to the AER in the past.

DNSPs noted that they may have different interpretations of what is an overhead. AER staff noted that many key activities in the network and corporate overhead categories were clearly defined and should be common across all NSPs.

DNSPs queried whether the overheads data should be based on their cost allocation methods, capitalisation policy and basis of preparation. AER staff undertook to consider whether the reconciliation requirements in the RINs conflicted with cost allocation methods and other accounting requirements.

### Other items of discussion

Some NSPs indicated that the removal of the safety and environment category is not necessarily desirable given they have large ongoing expenditure for safety requirements. This was of particular concern to Victorian NSPs due to increased fire safety expenditure. NSPs questioned where this expenditure should now be recorded.

AER staff responded that safety capital expenditure should be reported in the capex categories (i.e. repex, augex, connections and customer driven works and non-network). For example, replacements driven by increased safety requirements should be reported under replacement capital expenditure. Staff noted that the definition of augmentation had been broadened to include non-demand-driven projects such as safety projects.

AER staff indicated that NSPs could add lines in templates for safety specific projects/expenditure. AER staff also indicated that at revenue decisions the AER will expect material expenditure decision to be well justified, such as through the provision of business cases.

NSPs asked if, in line with earlier versions of the templates, the AER could add a column in all templates for asset/variable identification that could then be linked to definitions. AER staff indicated they would consider amending the templates to facilitate this.

## *Attachment A: Attendee list*

### Melbourne office

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| --- | --- |
| **Name** | **Organisation** |
| Neil Watt | CitiPower/Powercor |
| Renate Tirpcou | CitiPower/Powercor |
| Michael Seddon | Transend |
| Stephanie McDougall | United Energy |
| Thomas Allen | Jemena |
| Richard Sibly | SA Power Networks |
| Leigh Mayne | Aurora |
| Nicola Roscoe | Energex |
| Bill Jackson | ElectraNet |
| Tom Hallam | SP AusNet |
| Jennifer Harris | Powerlink |
| Lawrence Irlam | AER |
| Esmond Smith | AER |
| Max Hooper | AER |
| Jess Manahan | AER |
| Anthony Hynes | AER |
| Anthony Seipolt | AER |
| Israel del Mundo | AER |
| Mark McLeish | AER |
| Andrew Ley | AER |
| Kevin Cheung | AER |

### Sydney office

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| --- | --- |
| **Name** | **Organisation** |
| Kim Casey | Ergon |
| Andrew Kingsmill | TransGrid |
| Zubin Meher-Homji | Networks NSW |
| Patrick Duffy | Endeavour Energy |
| Peter Cunningham | ActewAGL |
| Jason Cooke | Essential Energy |
| John Skinner | AER |
| Matthew Le Cornu | AER |

### Telephone

|  |  |
| --- | --- |
| **Name** | **Organisation** |
| Yili Zhu | AER |
| Mark Wilson | AER |