ACTEWAGL RESPONSE TO PROPOSED DEFINITIONS AND APPROACHES FOR THE ECONOMIC BENCHMARKING RIN OF 30 OCTOBER 2013

1. REVISED DEFINITIONS FOR VEGETATION MANAGEMENT OPERATING ENVIRONMENT FACTORS

As remarked at the AER/ActewAGL bilateral telephone meeting of 8 October, difficulties arise for ActewAGL in calculating and expressing vegetation management variables on a *per span* basis. Spans vary considerably in length due to a number of factors, and are not a standard measure.

Using *per kilometre* denominator, in accordance with ActewAGL's vegetation management records and contracts, would involve far less effort in compilation and reduce the requirement for assumptions in the statistics.

2. INSTRUCTIONS FOR A STANDARD APPROACH TO DISAGGREGATING THE RAB

ActewAGL's regulatory asset base consisted of a single *pooled* asset class under the previous regime (ie, prior to 2009, when regulated by the ICRC rather than AER). When the AER assumed responsibility for national regulation, all new ActewAGL capex was allocated to 14 categories. However, the draft Economic Benchmarking Technique RIN (EBT RIN) requires a disaggregation of the pooled asset category (the pre-2009 assets), using an estimation method. Typically, the RAB is rolled forward each year using the capex in that year, so that the RAB represents the total value (in real terms) of the regulated assets. The RAB is not a measure of physical assets unless revalued at regular intervals.

ActewAGL has developed a preferred method of estimating the disaggregation using accounting data from 2009 and before to apportion the pooled RAB at a specific year and capex additions according to the asset register's accounting net book values. Depreciation amounts will be apportioned across categories according to estimated RAB values each year, matching the assumption under the previous regime that all assets had the same life. This would result in the total of disaggregated categories matching the decision values and an internally consistent roll-forward. This would not occur if different lives were assumed for different asset categories. ActewAGL considers that its preferred approach is a more accurate estimate of the RAB according to the AER's requested asset classes and would better reflect the way additions are made to the RAB and how the RAB is rolled forward.

The AER's proposed *Common Approach* will, in contrast to the method preferred by ActewAGL, involve estimating counts of all physical assets held by the business, their average lives, standard service lives, and the replacement cost per unit. This approach essentially represents a revaluation of the RAB based on current market unit rates. It is likely that the RAB revalued in this way will be materially higher than the actual RAB, which is based on historical data. In this case, only the *proportions* based on today's unit rates would be used to allocate the pooled RAB into categories.

Compared to ActewAGL's preferred approach, the AER's Common Approach will magnify any errors in estimated unit rates and amounts of physical assets. The disaggregation would be achieved according to 2012 unit rates, despite the pooled asset base not having been added to since 2009. ActewAGL is therefore concerned that today's unit rates would be very different relative to each other than at the times when ActewAGL's assets were built (sometimes 40 or more years ago), resulting in an incorrect apportioning of the asset classes. Further, auditing will be more difficult if high-level engineering estimates are used to apportion the RAB rather than accounting data (that is, there would be very little use of 'actual information' as it is defined in section 3 of the document).

After the disaggregation, the AER's Common Approach would roll back the RAB using capex and depreciation amounts calculated from standard and remaining asset lives across each asset class. We note that this would result in a RAB which does not match past decisions, inconsistent with the instructions (1.1.2) requiring the totals to match in previous years. In contrast, ActewAGL's preferred approach would match the depreciation and additions to the RAB under the previous regulatory model using the actual proportions within the actual asset register at the time.

3. DEFINITIONS FOR ACTUAL FINANCIAL INFORMATION AND ESTIMATED FINANCIAL INFORMATION

These definitions appear reasonable and we have no comments at this stage.

Should you wish to discuss in detail any of the raised matters above, please contact Björn Tibell, Senior Financial Advisor on (02) 6248 3639.

ActewAGL Distribution, 7 November 2013