

AusNet Transmission Group Pty Ltd

**2017-22 Transmission Revenue Reset
Regulatory Information Notice**

Basis of Preparation

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Overview

This Basis of Preparation document supports the preparation and reporting of the historic information presented in AusNet Transmission Group Pty Ltd's ("AusNet Transmission" or the "Company") report entitled 'AusNet Regulatory Information Notice templates'.

The ultimate parent entity of the Company is AusNet Services Ltd, a listed company incorporated in Australia.

The Report has been prepared in accordance with the 'Regulatory Information Notice issued under section Division 4 of Part 3 of the *National Electricity (Victoria) Law*' ("RIN") issued by the AER on 1 September 2015 and other authoritative pronouncements of the AER.

AusNet Transmission's Regulatory Year (and financial year) is the period 1 April to 31 March ("Regulatory Year" and "Financial Year"). Data included in the Report has been provided for the historic Regulatory Years as specified in the Report. All financial data included in the Report is presented in Australian dollars. Non-financial data is stated as per the measures specified in the Report.

AusNet Services Ltd owns and operates 3 regulated networks – an electricity distribution network, a gas distribution network, and an electricity transmission network. Employees of AusNet Services Ltd work across the 3 regulated networks and there are shared costs and overhead and other corporate costs that cannot be directly allocated to a particular network. These costs are proportioned amongst AusNet Services' 3 regulated networks, as well as unregulated businesses, based on an Activity Based Costing ("ABC") survey process completed by all cost centre managers and in accordance with AusNet Services' Cost Allocation Methodology ("CAM").

Materiality has been applied throughout the Report and Basis of Preparation. Materiality is defined as information that if omitted, misstated or not disclosed has the potential, individually or collectively to influence the economic decisions of users.

In conformity with AER requirements, the preparation of the Report requires the use of certain critical management estimates. For the purpose of preparing the Reports, 'estimated information' is defined as information presented in the Report whose presentation is not materially dependent on information recorded in accounting records or other records used in the normal course of business, and whose presentation for the purpose of the RIN is contingent on judgments and assumptions for which there are valid alternatives, which could lead to a materially different presentation in the Report.

Where estimated information has been presented, the circumstances and the basis for the estimate, including the approach used, assumptions made and reasons why the estimate is AusNet Transmission's best estimate has also been set out below. Considerations of the cost and efficiency of preparation as well as the reliability and accuracy of data available have been taken into account in determining the best methodology to determine the estimates.

'Actual Information' is defined as information materially dependent on information recorded in historical accounting records or other records used in the normal course of business, and whose presentation is not contingent on judgments and assumptions for which there are valid alternatives, which could lead to a materially different presentation. Any information or allocation which has been calculated via the ABC survey process is considered actual information, as this is in accordance with the AER-approved CAM.

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The preparation methodologies and information sources adopted in the preparation of the Report is set out below. This Basis of Preparation is not applicable to the forecast period (2015-16 – 2021-22 Regulatory Years) as presented in the Report.

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2.14 Forecast Price Changes

Table 2.14.1 Forecast labour and materials price changes

This Basis of Preparation is only relevant to the 2012-13 – 2014-15 columns of the Table. All price changes are expressed in percentage year on year real terms.

Preparation Methodology:

Materials price changes

AusNet Services does not track historical changes in its materials costs. Accordingly, historical changes in the price of commodities used as key inputs in the electricity transmission industry – aluminium, steel, copper and oil – have been used as proxies. Price data for these commodities has been sourced as follows:

- Aluminium – LMAHDY (London Metals Exchange Aluminium Spot (\$) Last Price) (A\$) – from Bloomberg
- Steel – CRU index of steel prices – LMFMDY (London Metals Exchange Steel Billet Spot Last Price) (A\$) – from Bloomberg
- Copper – LME spot price – LMCADY (London Metals Exchange Spot Copper (\$) Last Price) (A\$) – from Bloomberg
- Oil - Historical monthly average historical crude oil prices (Europe Brent Spot Price FOB (US\$ per Barrel)) – US Energy Information Administration website

Annual price changes for each commodity have been calculated as the change in the spot price between the first day of the relevant two financial years for which data is available, converted to a real change using actual Consumer Price Index (“CPI”) for that year. For example, the 2012-13 copper price change is equal to the percentage change in the copper spot price between 2 April 2012 and 2 April 2013, converted to a real change using actual 2012-13 CPI growth.

Actual annual CPI growth has been calculated as the change in the September quarter CPI between the two relevant years, lagged for one year. This is consistent with the AER’s approach to calculating CPI growth in its regulatory determination for the 2014-17 regulatory control period.

Labour and other price changes

Historical labour costs have been disaggregated into internal and external labour, reflecting the categories AusNet Transmission has broken down its forecast labour costs into.

Internal labour costs

Internal labour costs from 2012-13 – 2014-15 have been estimated based on the real wage growth set out in AusNet Services’ Australian Municipal, Administrative, Clerical and Services Union and Electrical Trades Union enterprise agreements (“EAs”). Estimating these costs involved:

- Obtaining nominal wage outcomes from each EA
- Converting nominal wage outcomes to financial year values

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- Weighting financial year nominal wage outcomes based on the representation of each union within AusNet Services' unionised workforce as at March 2015. These proportions are assumed to be consistent across the 2012-13 – 2014-15 period. This is considered a reasonable assumption because no major organisational restructuring has occurred during this period that could materially affect each union's representation.
- Converting the weighted financial year nominal wage outcomes to real wage outcomes using actual CPI growth.

External labour costs

External labour costs from 2012-13 – 2014-15 are estimated based on the actual increase in the March Quarter Construction Wage Price Index ("WPI") (sourced from the Australian Bureau of Statistics website), converted to real values using actual CPI growth.

Estimated information:

For materials price changes, it is noted that the reported data is based on historical changes in commodity prices on the London Metals Exchange and the market for Brent Crude. It is therefore based on the global price of raw materials rather than finished goods (e.g. copper conductor) procured by AusNet Services in the local market. Accordingly, the reported values are estimates of historical real changes in AusNet Services' materials costs based on reasonable proxies.

Both internal and external labour price changes are estimates. Both data use year-on-year changes in EAs and WPIs, respectively, as proxies for labour price changes.

These are the best estimate management can provide, based on information available.

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2.17 Step Changes

A step change is a material difference in forecast expenditure from historic expenditure not attributable to forecast output growth, real price changes or productivity change.

Table 2.17.1 – forecast opex step changes

This Basis of Preparation is only relevant to the 2012-13 – 2014-15 columns of the Table. All amounts are shown in nominal dollars.

Preparation Methodology:

2014-17 step changes

AEMO Power Systems Security Functions Agreement

- 2012-13 costs are nil as no opex was incurred in this year.
- 2013-14 and 2014-15 costs have been estimated using the step change allowance approved by the AER in its 2014-17 determination. Actual costs could not be obtained because these costs were not tracked separately in the financial system; therefore the assumption that the costs incurred equaled the approved allowance is the best estimate management can make.

Transitional arrangements for the Economic Regulation of NSP's rule change

- 2012-13 to 2014-15 costs were extracted from the underlying workings to the Regulatory Accounts for each year, where the data source is the financial system. The costs extracted were the opex incurred for the dedicated Economic Regulation cost centres. These costs were then each subtracted from the 2011-12 base year costs (inflated to each relevant year's dollar term to remove the effects of inflation) to provide the respective amounts to report. This approach has been used as a proxy to determine the step change incurred for the Economic Regulation of NSP's rule change which is the best estimate management can make.

Fire Services Levy

- 2012-13 costs are nil as no opex was incurred in this year.
- 2013-14 and 2014-15 costs were extracted from the financial system (there is a separate general ledger account which records these costs).

Controller simulator

- 2012-13 to 2014-15 costs are nil as no opex was incurred in these years.

Security of critical infrastructure

- 2012-13 and 2013-14 costs are nil as no opex was incurred in these years.
- 2014-15 costs have been estimated using the step change allowance approved by the AER in its 2014-17 determination. Actual costs could not be obtained because these costs were not tracked

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separately in the financial system; therefore the assumption that the costs incurred equaled the approved allowance is the best estimate management can make.

2017-22 step changes

Establishment of IT security team

- 2012-13 to 2014-15 costs are nil as no opex was incurred in these years.

New emergency response arrangements

- 2012-13 to 2014-15 costs are nil as no opex was incurred in these years.

Roll out of SAIP

- 2012-13 and 2013-14 costs are nil as no opex was incurred in these years.
- 2014-15 costs were extracted from the financial system, as these costs were tracked via a project.

Lease of WMTS 22kV mobile switchboard

- 2012-13 to 2014-15 costs are nil as no opex was incurred in these years.

Decommissioning of synchronous condensers

- 2012-13 to 2014-15 costs are nil as no opex was incurred in these years.

Decommissioning of Morwell Power Station assets

- 2012-13 to 2014-15 costs are nil as no opex was incurred in these years.

Estimated Information:

All amounts are considered actual information except for:

- AEMO Power Systems Security Functions (2013-14 and 2014-15 costs) and Security of critical infrastructure (2014-15 costs). These costs were not tracked separately in the financial system, therefore the best estimate management can make is assuming expenditure equals allowance.
- Transitional arrangements for the Economic Regulation of NSP's rule change (2012-13 to 2014-15). These costs were not tracked separately in the financial system, therefore the opex costs incurred for the dedicated Economic Regulation cost centres are the best estimate management can make.

Table 2.17.1 – forecast capex step changes

There are no capex step changes applicable.

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7.4 Shared Assets

Shared assets are those assets that are used to provide both prescribed transmission services and unregulated services. In some circumstances this may reflect revenue apportionment in line with the AER's Shared Asset Guideline.

A division of AusNet Services is Select Solutions, who provide metering, data and asset management solutions, including integrated mobile and spatial technologies. They perform unregulated services, and they have certain revenues recorded within the AusNet Transmission Group Pty Ltd entity.

Table 7.4.1: Total unregulated revenue earned with shared assets

Table 7.4.2: Shared asset unregulated services – apportionment methodology

Preparation Methodology:

Note – this is only applicable to the 2007-08 – 2014-15 columns within Table 7.4.1.

All Shared Asset Unregulated Services except Site Leasing

Based on information included in the AER Guidelines, an appropriate subject matter expert identified assets which are considered Shared Assets. A review of all external revenue sources was conducted to identify the assets used to provide the service and whether those assets were acquired using Regulated Capex. This information was validated and reviewed by appropriate subject matter experts.

Once the shared assets and associated revenue streams were established, information from the financial system was used to determine the revenue on a regulatory year basis for those unregulated services. The revenue reported includes the full amount of unregulated revenue from providing the shared asset service, not just the component attributable to the use of shared assets.

All revenues are sourced directly from the financial system.

HV CT & VT Testing and Calibration & Electrical Testing (incl NATA accredited)

Revenues for 'HV CT & VT Testing' & 'Calibration & Electrical Testing (incl NATA accredited)' are based on a percentage allocation of total Metering & Protection Control Revenue captured in the Select Solutions business unit. The percentage splits are derived based on a report from the asset management system, which is where the source transactional data is generated. The report was based on 2014-15 data and was used to allocate the costs across the prior Regulatory Years, as it is assumed the volume of works between the two services are materially consistent across the period.

Site Leasing

AusNet Services leases a number of its owned sites to third parties / customers and generates income accordingly from these lease arrangements. The site leasing revenues contained in Table 7.4.1 for regulatory years 2007-08 to 2014-15 are based on actual reported revenues sourced from the financial system for all Transmission customers.

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Estimated Information:

The percentage allocations used to derive the historical revenues for 'HV CT & VT Testing' and 'Calibration & Electrical Testing (incl NATA accredited)', as described above, are considered to be estimates, as the data was not separately captured. The estimated methodology described above is considered management's best estimate.

All other information is actual information as it is sourced directly from the financial system.

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7.5 Efficiency Benefit Sharing Scheme (EBSS)

Table 7.5.1.1 – opex allowances applicable to EBSS (EBSS target)

2010-11 – 2013-14 total opex allowances and all approved excludable costs have been sourced from the AER's EBSS model for the 2007-08 – 2013-14 regulatory period, and reflect the values in the AER's regulatory determination for that period.

2014-15 – 2016-17 total opex allowances and all approved excludable costs have been sourced from the AER's final decision Post-Tax Revenue Model (PTRM) for the 2014-15 – 2016-17 regulatory period, and reflect the values in the AER's regulatory determination for that period.

Table 7.5.1.2 – actual and estimated opex applicable to EBSS

2010-11 – 2014-15 total opex and approved excludable costs have been sourced from the Regulatory Accounts for each respective year, with the exception of movements in provisions related to opex, which have been extracted from the Provisions Templates of each year's Economic Benchmarking RIN and are equal to the sum of all changes in provisions allocated to opex.

Estimated Information:

All amounts are considered actual except for movements in provisions related to opex (for all Regulatory Years). This component is considered estimated information based on the estimated opex/capex split required to be calculated in the Economic Benchmarking RINs, as the information is not separately captured in the financial system.

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7.7 Service Target Performance Incentive Scheme (STPIS)

Table 7.7.1 – Historical performance and proposed caps, collars and targets for the service component of the STPIS

Preparation Methodology:

All data reported was extracted from the Asset Management System. All data aligns with that reported in the 2005-06 – 2012-13 and 2014-15 Economic Benchmarking RINs¹, with the exception of the 2014 value for the “loss of supply event frequency > (x) system minutes” sub-parameter and the 2010-14 values for the “failure of protection system” sub-parameter.

The “loss of supply event frequency > (x) system minutes” value does not align with the value previously reported in the 2014-15 Economic Benchmarking RIN because of two loss of supply events that occurred in the first quarter of Calendar Year 2014 on connection assets that were exempt from the version of the STPIS AusNet Services was subject to at the time the outages occurred, but are included under STPIS versions 4 and 5 and have thus been reported.

The “failure of protection system” values do not align with the values previously reported in the 2005-06 – 2012-13 and 2014-15 Economic Benchmarking RINs because that data included only the number of events where, in response to a fault event, a protection system does not operate as designed or where a protection or control system operates when there is no relevant fault event.

The data reported for the “failure of protection system” sub-parameter captures the number of events where, in response to a fault event, a protection or control system does not operate as designed or where a protection or control system operates when there is no relevant fault event. This aligns with the AER’s stated intent in the STPIS Version 5 final decision to include both protection and control systems in the scope of this sub-parameter.²

AusNet Services has configured its asset management systems to capture information on the performance of its protection systems. Performance data is also routinely captured for key control systems because of the high level of reliability required of these systems. The number of failures of these systems has been included in the data. Data is not captured for non-key control systems because failures of these systems do not generally affect network performance. The data reported therefore assumes no failures occurred on non-key systems. This is Management’s best estimate of the number of failures occurring on protection and control systems.

While data for SCADA control systems is captured, failures of these incidents are reported under the “material failure of SCADA” sub-parameter and thus have been excluded from the “failure of protection system” data to avoid duplication.

Estimated Information:

All information is considered actual, with the following exceptions:

¹ 2010-13 data was captured in the 2005-06 to 2012-13 RIN, while 2014 data was captured in the 2014-15 RIN.

² AER (2015) *Final Decision – electricity transmission network service providers service target performance incentive scheme*, September 2015, p.21

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- The number of failure of protection system is considered estimated information as it includes Management's best estimate of the number of control system failures.
- The number of material failures of SCADA system is considered estimated information as it is based on data provided by AEMO and is not materially dependent on information recorded in AusNet Services' records used in the normal course of business.
- In relation to 'Incorrect operational isolation of primary or secondary equipment', incorrect operational isolation is defined in the AER TNSP STPIS as incidents "irrespective of whether an outage occurred". AusNet Services does not capture incidents where no outage results. Based on this, the number of incidents of Incorrect operational isolation of primary or secondary equipment which resulted in an outage has been used as a proxy for the data requested. Therefore, the information provided is considered estimated information.

The data provided is considered Management's best estimate based on the information available.

Table 7.7.4 – Market Impact Component

Data is reported in accordance with the definitions specified in the October TNSP STPIS (version 5, corrected) document, per the AER RIN Instructions and Definitions and the STPIS version 5 – MIC Guidance Document issued by the AER on 1 October 2015.

AusNet Services' 2009-10 MIC performance has been audited by the AER in 2011 in accordance with STPIS V2. AusNet Services' 2011-14 MIC performance has been audited by the AER in 2015 in accordance with STPIS V4.

The data is consistent with these reviews.

Preparation Methodology:

For 2009-2010, the data reported was sourced from AEMO's Markets Management System from files provided by the AER. For 2011-2014, the data reported was sourced from AEMO's Markets Management System using software packages (e.g. Ezi View provided by Global Roam).

The data was initially filtered to exclude system normal 'NIL' and other abnormal constraints unrelated to AusNet Services activities. Outages caused by AusNet Services were then manually identified.

For 2009-10, the AusNet Services data set was inconsistent with the AER's final STPIS V2 determination for 2011. In this case, the AER determination V2 performance results were used, but adjusted for known changes to exclusions between V2 and V5. Monthly data for 2009-10 was determined by applying pro-rata adjustments to the 2009-10 totals based on the monthly breakdown of the AusNet Services data set, to ensure alignment with the final AER determination.

For 2011-2014, the AusNet Services data set aligns with previous determinations, but re-evaluated for STPIS version 5 and changes in the AER interpretation of exclusions.

Planned and forced outages were assigned manually to DI's and no forced outages greater than the 17% cap were identified.

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Estimated information

All information is considered actual with the following exceptions:

- The Market Impact parameter count (DI) (without exclusions) for all years is considered estimated because:
 - The pre-filtering process may have excluded some DIs that were previously not required to be reported under previous versions of the STPIS in order to simplify reporting requirements.
 - Over the six year period, AusNet Services has not consistently treated exclusions in response to advice from the AER on the interpretation of exclusions under previous versions of the STPIS.
- The Market Impact parameter count (DI) (with exclusions) for 2009 and 2010 is considered estimated because the AER's determination – adjusted for known changes to exclusions and with monthly data determined using the prorate adjustment outlined above – has been reported, rather than the underlying AusNet Services data set.

The data outlined above is considered Management's best estimate based on the information available.