

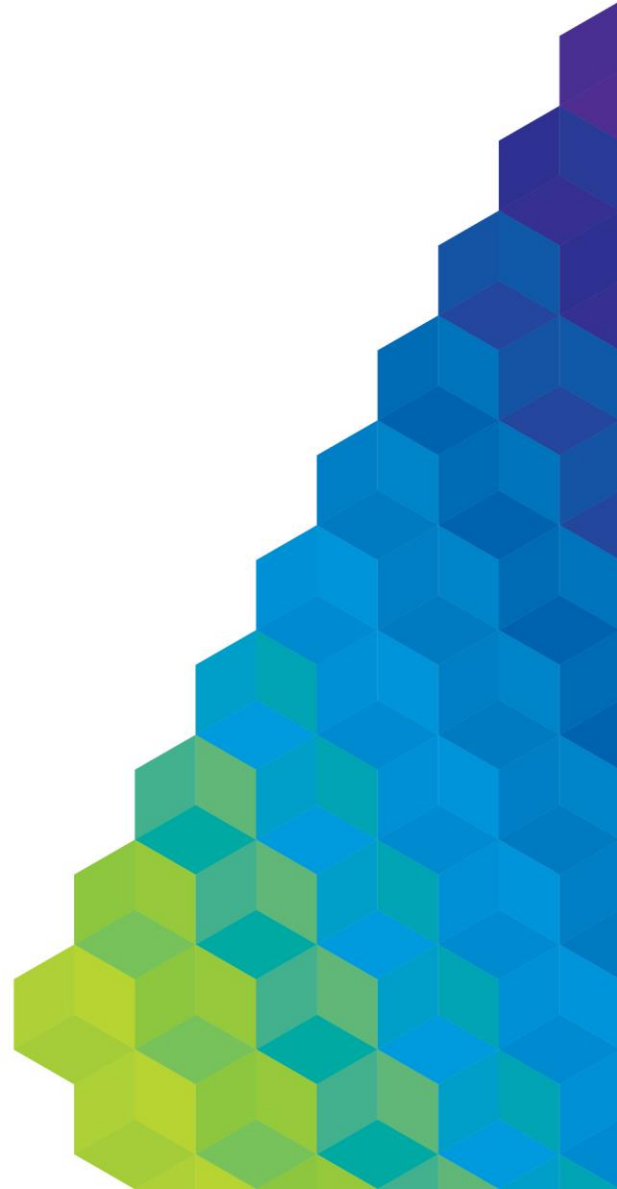


Regulatory Information Notice – Basis of Preparation

2023-27 Transmission Revenue Reset

PUBLIC

Submitted: 30 October 2020



Basis of Preparation

1. Overview

This Basis of Preparation document supports the preparation and reporting of the AusNet Transmission Group Pty Limited's (**AusNet Transmission**) regulatory control period commencing on 1 April 2022 and ending on 31 March 2027. The template provides data solely for the use of the Australian Energy Regulator (**the AER**) to make a transmission determination for AusNet Transmission regulatory control period.

The template 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 20 July 2020. 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 template has been provided for the historic regulatory years as specified in the template.

All financial data included in the template is presented in Australian dollars. Non-financial data is stated as per the measures specified in the template.

The ultimate Australian parent entity of AusNet Transmission is AusNet Services Limited. The AusNet Services Group (**the Group**) owns and operates 3 regulated networks – an Electricity distribution network, a Gas distribution network, an Electricity transmission network, and Unregulated businesses.

Materiality has been applied throughout the Reports 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.

'Actual Information' as defined in the Notice as "Information presented in response to the notice whose presentation is materially dependent on TNSP's historical accounting records or other records used in the normal course of business, and whose presentation for the purposes of the notice is not contingent on judgments and assumptions for which there are valid alternatives, which could lead to a Materially different presentation in the response to the notice.

'Accounting records' include trial balances, the general ledger, subsidiary accounting ledgers, journal entries and documentation to support journal entries. Actual financial information may include accounting estimates, such as accruals and provisions, and any adjustments made to the accounting records to populate TNSP's regulatory accounts and responses to the notice. 'Records used in the normal course of business', for the purposes of non-financial information, includes asset registers, geographical information systems, outage analysis systems, and so on."

'Estimated Information' is defined in the Notice as "Information presented in response to the notice whose presentation is not Materially dependent on information recorded in the TNSP's historical accounting records or other records used in the normal course of business, and whose presentation for the purposes of the notice is contingent on judgments and assumptions for which there are valid alternatives, which could lead to a Materially different presentation in the response to the notice. If the TNSP inserts a 'NULL' response to a variable in the notice, this will constitute estimated information."

Basis of Preparation

Interpretation of the AER's definition of Actual and Estimated information requires Management judgments to be made as to the appropriate classification of information including:

- the extent to which the information is sourced from accounting or other records used in the normal course of business; and
- the degree of estimation involved and whether the information is materially dependent on judgments and assumptions for which there are valid alternatives, which could lead to a materially different presentation.

Estimates provided are considered as Management's best estimate based on the data available. Estimates will often not equal the related actual results and estimates have only been made for the purpose of disclosing the information required under the RIN. Considerations of the cost and efficiency of preparation as well as the reliability and accuracy of data available have been considered in determining the best methodology to determine the estimates.

The methodologies, assumptions and judgments made by management in respect of variables are described within the relevant sections of this Basis of Preparation.

The AER's requirement (schedule 2 section 1.2 (d)), is to report all variables as Actual Information and where this is not possible, provide estimated information with appropriate assumptions.

Where 'Estimated Information' has been presented, the circumstances and the basis for the estimate, including the approach used, assumptions made, reasons why an estimate was required and why the estimate is AusNet Transmission's best estimate has also been set out below. On this basis, AusNet Transmission consider data provided follows the RIN Instructions.

The preparation methodologies and information sources adopted in the preparation of the template are set out below.

Basis of Preparation

Contents

Workbook 1 **5**

7.4 Shared Assets5

7.9 Service Target Performance Incentive Scheme (STPIS)6

Workbook 5..... **9**

Capital expenditure sharing scheme (CESS)9

Workbook 6..... **10**

7.5 Efficiency Benefit Sharing Scheme (EBSS) 10

Workbook 8..... **11**

8.2 Capex Historical 11

Information prepared in accordance with Reset RIN clause 4.1(a)(ii) **12**

Basis of Preparation

Workbook 1

7.4 Shared Assets

Period:

FY2012-13 to 2014-15

The information disclosed in the regulatory templates and this Basis of Preparation were sourced from previously audited or reviewed submissions to the AER as part of the previous Transmission Revenue Review.

Period:

FY2015-16 to 2019-20

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 Mondo Power Pty Ltd, 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

Preparation Methodology:

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.

Although all revenues are sourced directly from the financial system, data for FY2015-16 is estimated information. See explanation below.

Site Leasing

AusNet Services leases several 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 FY2012-13 to FY2019-20, excluding FY2015-16 (see explanation below) are based on actual reported revenues sourced from the financial system for all Transmission customers.

Basis of Preparation

Estimated Information:

All Shared Asset Unregulated Services except Site Leasing

AusNet Transmission Group transitioned to a new ERP system known as SAP, effective 1 May 2015 with the previous ERP system being decommissioned. AusNet Transmission Group estimated the revenue for FY2015-16 by dividing 11 months of actual SAP data for the relevant revenue categories and multiplied the result by 12. AusNet Transmission Group believes this a reasonable basis for the estimate.

The information disclosed for the period FY2017-20 is regarded as 'Actual Information' as it was sourced directly from financial systems.

Site Leasing

As noted above AusNet Transmission Group transitioned to SAP effective 1 May 2015. Accordingly, for this variable AusNet Transmission Group sourced the information from the Site Leasing GL account from the Audited statutory trial balance that combined the previous and current ERP systems. AusNet Transmission Group regards the FY2015-16 information as estimated as it is unable to reliably validate any underlying transactions from the previous ERP system.

The information disclosed for the period FY2017-20 is regarded as 'Actual Information' as it was sourced directly from financial systems.

Table 7.4.2: Shared asset unregulated services – apportionment methodology

No apportionment methodology was applied.

7.9 Service Target Performance Incentive Scheme (STPIS)

Table 7.9.1 – 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 2015-16 to the 2019-20 Economic Benchmarking RINs. The data reported aligns with the AER's annual decisions on STPIS performance.

'Outage' means 'loss of connection' rather than loss of supply by a connected system or customer. To allow summation into an overall Average Circuit outage rate, both numerator (number of events with defined circuits unavailable per annum) and denominator (total number of defined circuits) have been provided as well as the calculated percentage rate for each item.

The parameter variables TQS0101 to TQS02 have been provided based on a calendar year (from 1 January to 31 December) as STPIS performance reporting is undertaken on a calendar year basis.

Unplanned outages on Assets and the corresponding outage data is recorded in the Asset Management System and periodically included in internal reports and also AER submissions. The reports from the Asset Management System were reviewed and amended to align with requested information (e.g. unregulated asset information excluded).

The reported 'Number of lines fault outages' (TQS0102) and 'Number of defined lines' (TQS0103) was used to calculate the 'Lines outage rate – fault' (lines event rate – fault) percentage (TQS0101).

Basis of Preparation

The reported 'Number of Transformer fault outages' (TQS0105) and 'Number of defined Transformers' (TQS0106) was used to calculate the 'Transformers outage rate - fault' (transformer event rate – fault) percentage (TQS0104).

The reported 'Number of Reactive plant fault outages' (TQS0108) and 'Number of defined reactive plant' (TQS0109) was used to calculate 'Reactive plant outage rate - fault' (reactive plant event rate – fault) percentage (TQS0107).

The reported 'Number of defined lines' (TQS0103) and 'Number of Lines forced outages' (TQS0111) was used to calculate the 'Lines outage rate – forced outage' (lines event rate – forced) (TQS0110).

The reported 'Number of defined Transformers' (TQS0106) and 'Number of Transformers forced outages' (TQS0113) was used to calculate the 'transformer outage rate – forced outage' (transformer event rate – forced) (TQS0112).

The reported 'Number of defined reactive plant' (TQS0109) and 'Number of reactive plant forced outages' (TQS0115) was used to calculate 'Reactive plant outage rate – forced outage' (reactive plant event rate – forced) (TQS0114).

Data presented relates to assets providing Prescribed Transmission Services.

The loss of supply event frequency thresholds of 0.05 and 0.30 system minutes per annum have been applied based on the AER's TNSP STPIS. Information reported was based on data reported in the annual AER Transmission Service Standard Compliance Report which was ultimately sourced from the Asset Management System.

Average Outage Duration was derived by performing a simple average calculation of the total number of minutes for outages divided by the number of outages which caused loss of supply.

'Failure of protection system' (TQS0119) and 'Incorrect operational isolation of primary or secondary equipment' (TQS0121): Information on system incidents was extracted from the Asset Management System. A detailed analysis was performed of this information and based on this review, the relevant data requested was captured and summed.

'Material failure of Supervisory Control and Data Acquisition (SCADA) system (TQS0120): Information in relation to material SCADA failures was obtained directly from AEMO.

Estimated Information:

All information is considered actual, with the following exceptions:

- The number of material failures of SCADA system (TQS0120) 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' (TQS0121), 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.

Basis of Preparation

Table 7.9.4 – Market Impact Component and Workbook 2 (MIC)

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' 2013 – 2015 MIC performance has been audited by the AER as part of the 2017-22 Revenue determination in accordance with STPIS V5. The 2015 data template was updated to reflect the AER final decision in the 2017-22 revenue determination.
- AusNet Services' 2016 – 2017 Q1 MIC performance has been previously submitted to the AER as part of the annual compliance and review process in accordance with STPIS V4.
- AusNet Services' 2017 Q2 - 2019 MIC performance has been previously submitted to the AER as part of the annual compliance and review process in accordance with STPIS V5.

The data reported in Workbooks 1 and 2 is consistent with these reviews. However, the data reported for 2016 and 2017 Q1 (Jan-Mar) has been modified to reflect V5 of the STPIS, which did not apply to those time periods. This is explained further below.

Preparation Methodology:

For all years, the data reported was sourced from AEMO's Markets Management System using software packages (e.g. Ez2View provided by Global Roam).

The data for all years was initially filtered to provide a zero weight for system normal 'NIL' constraints and filters and exclusions were applied to other abnormal constraints unrelated to AusNet Services activities. Market Notices (sourced from AEMO's Markets Management System), the Network Outage Scheduler (AEMO program for recording TNSP outages), and SAP (our internal Outage Processing System) were used to manually identify constraints caused by AusNet Services and the reason. This same method was used to determine if there was another cause of the constraint.

For 2016 – 2017 Q1, the reported data aligns with previous determinations, adjusted to remove Dispatch Intervals that have been excluded through annual compliance review processes in accordance with STPIS version 5. These adjustments relate to the treatment of dispatch intervals (DIs) associated with the following constraints:

- **Constraints on the Vic-SA interconnector.** These constraints have been excluded in order to remain consistent with the AER's Final decision in the 2017-22 revenue determination under exclusion clause 1, as well as the approach taken in the 2019 annual review.
- **Individual generator constraints.** These constraints have been excluded to remain consistent with the approach taken in the 2018 and 2019 annual reviews, which was to exclude these outages under clause 11.

Planned and unplanned outages were assigned manually to DI's. Unplanned outages were not capped in the data, but clearly separated out and identified. The data provided is in outage 'Count DIs' and not 'Sum weight'.

Estimated information:

All information is considered actual with the exception of AusNet Services' 2013 – 2015 MIC performance.

The Planned outage count (DI) (with exclusions) for 2013–15 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.

The Unplanned outage count (DI) (without exclusions) for 2013–15 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.

Basis of Preparation

Workbook 5

Capital expenditure sharing scheme (CESS)

Capex allowance applicable to CESS

2017-22 total capex allowance and asset disposals have been sourced from the AER's final decision Post-Tax Revenue Model (PTRM) for the 2017 – 2022 regulatory period and reflect the values in the AER's regulatory determination for that period.¹ These costs are denominated in \$2016-17.

Actual and estimated capex applicable to CESS

2017-18 – 2019-20 actual total capex, asset disposals and approved excludable costs have been sourced from the Regulatory Accounts for each respective year.

Estimated Information:

All amounts are considered actual except for movements in provisions related to capex (for all Regulatory Years). The movements in provisions 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.

¹ Modified to reflect the AER's determination for AusNet Services transmission tower collapse cost pass through application in September 2020 – see <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/cost-pass-throughs/ausnet-services-%E2%80%93-cost-pass-through-%E2%80%93-500kv-transmission-line-tower-collapse>

Basis of Preparation

Workbook 6

7.5 Efficiency Benefit Sharing Scheme (EBSS)

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

2014-15 and 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. Given these allowances and approved excludable costs were denominated in \$'2013-14, we updated the escalators in Table 7.5.1.1, as they were escalating from \$'2011-12.

2017-18 – 2021-22 total opex allowances and all approved excludable costs have been sourced from the AER's final PTRM model for the 2017 – 2022 regulatory period and reflect the values in the AER's regulatory determination for that period.²

Table 7.5.1.2 – actual and estimated opex applicable to EBSS

2014-15 – 2019-20 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). The movements in provisions 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.

² Modified to reflect the AER's determination for AusNet Services transmission tower collapse cost pass through application in September 2020 – see <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/cost-pass-throughs/ausnet-services-%E2%80%93-cost-pass-through-%E2%80%93-500kv-transmission-line-tower-collapse>

Basis of Preparation

Workbook 8

8.2 Capex Historical

Immediate Expensing Capital Expenditure (**Capex**) is the value of capital expenditure included in the regulatory or tax asset base that has been treated as immediately deductible for income tax purposes (e.g. refurbishments, overheads, etc.). Capex reported is required to be consistent with the value of immediate expensing capital expenditure that would be included in the income tax returns lodged by AusNet Services (**the Group**) for the relevant Regulatory Years. Reported values should reflect the values arising as a result of the ATO's decision-making process where relevant.

Table 8.2.7 – Immediate Expensing Capex

The Group's annual income tax returns lodged to the Australian Taxation Office includes immediately deductible capital expenditure.

The AusNet Transmission Group contributes to the Group's immediate deductible expensing of capex which consists of capitalised financing costs (**CFC's**), indirect labour and non-labour capitalised overheads for all type of capital expenditure but does not have any 'refurbished' capex that it claims. Although the Group claims CFC's as immediate deductible expensing of capex, AusNet Transmission Group did not include CFC's in this table as these costs are excluded from its reported capex disclosures in its Annual, Economic Benchmarking and Category Analysis RINs.

Period:	Type	Information	Assumptions for Estimated Information
2017-18	Confidential	Estimate	Allocation methodology used in categorisation

Preparation Methodology:

The AusNet Transmission Group's capitalised overheads segment used in the Group's annual tax return is provided by an Asset Accounting subject matter expert (**SME**), who sources the information from SAP. The capitalised overheads is based on an 'as commissioned' basis i.e. when the asset is ready for operational use. The underlying information used in the table was sourced from the SAP financial system that uses master data information (that would be included in the tax return) to categorise capitalised overheads into the asset classes as listed in the AER's final decision Post Tax Revenue Model (**PTRM**). However, as AusNet Transmission Group continues to improve its cost collection, recording and master data creation processes to meet new Regulatory reporting obligations, it apportioned a component of capitalised overheads on the basis of existing overhead data that was categorised for regulatory purposes.

Period:	Type	Information	Assumptions for Estimated Information
2018-19	Confidential	Actual	N/A

Preparation Methodology:

The AusNet Transmission Group's capitalised overheads segment used in the Group's annual tax return is provided by an Asset Accounting subject matter expert (**SME**), who sources the information from SAP. The capitalised overheads is based on an 'as commissioned' basis i.e. when the asset is ready for operational use. The underlying information used in the table was sourced from the SAP financial system that uses master data information (that would be included in the tax return) to categorise capitalised overheads into the asset classes as listed in the AER's final decision Post Tax Revenue Model (**PTRM**).

Basis of Preparation

Period:	Type	Information	Assumptions for Estimated Information
2019-20	Confidential	Actual	N/A

Preparation Methodology:

The AusNet Transmission Group's capitalised overheads segment used in the Group's annual tax return is provided by an Asset Accounting subject matter expert (**SME**), who sources the information from SAP. The Group changed its immediately deductible expensing of capex policy from being based on an 'as commissioned' basis to 'as incurred' as of FY2019-20. The underlying information used in the table was sourced from the SAP financial system that uses master data information (that would be included in the tax return) to categorise capitalised overheads into the asset classes as listed in the AER's final decision Post Tax Revenue Model (**PTRM**).

AusNet Services Group will lodge its FY20 tax return during October/November 2020. The tax return will contain actual information sourced from the financial systems of the AusNet Transmission Group for the immediate expensing of capex (capitalised overheads) as disclosed in template 8.2 of the RIN.

Information prepared in accordance with Reset RIN clause 4.1(a)(ii)

Reset RIN clause 4.1(a)(ii) requires that an estimate be provided of the proportion of assets replaced for each year of the current regulatory period due to ageing (i.e. condition and obsolescence), augmentation or other factors.

AusNet Services has provided this information in the RIN Schedule 1 Supporting Document.

To derive these proportions, all replacement expenditure has been classified into the following two categories:

- **Condition and obsolescence.** Assets that have reached the end of their effective life or can no longer be maintained. Note that AusNet Services replaces assets based on the condition, rather than the age, of the asset; or
- **Safety, security and compliance.** Assets replaced to maintain or improve the physical security or safety of the network, examples include infrastructure security, fire protection systems, environmental protection systems and structure fall arrests.

The categorisation of replacement expenditure into these categories has been undertaken at the project level by an AusNet Services subject matter expert.

All information is considered actual as project expenditure is sourced directly from AusNet Services' financial systems.