



## **Ausgrid Response to Regulatory Information Notice**

Provision of information and demonstration of compliance with the AER's regulatory information notice of 28 September 2012, amended on 6 August 2014

November 2014



# Ausgrid Response to Regulatory Information Notice

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# Overview and structure

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## Overview

This document demonstrates that Ausgrid has complied with the requirements of the Regulatory Information Notice (RIN) issued by the Australian Energy Regulator on 6 August 2014. We understand that the purpose of the RIN is to monitor the compliance of Ausgrid with the 2009-14 distribution determination; publish reports relating to the financial or operational performance of Ausgrid; and prepare for the making of future distribution determinations to apply to Ausgrid.

Ausgrid recognises the important role that performance reporting plays in improving the transparency and accountability of a regulated network service provider's operations. For this reason, we have made substantial investments in information systems over the years to provide accurate and reliable data in the form required by the regulatory bodies.

## Structure of Ausgrid's response

Ausgrid's response has been structured to demonstrate compliance with the AER's RIN. The Notice required Ausgrid to:

1. Provide in writing the information specified in Schedule 1 to the RIN.

Section 1 of Ausgrid's response provides the information required by the AER in respect of Schedule 1 of the RIN.

2. Prepare and maintain the information in the manner and form specified in Schedule 2 to the RIN.

Section 2 of Ausgrid's response demonstrates how we have complied with the AER's requirements in respect of Schedule 2 of the RIN.

3. Verify, by way of statutory declaration, the information specified in the RIN, in accordance with Appendix D of the RIN.

Section 3 of Ausgrid's response demonstrates how Ausgrid has satisfied the AER's requirements with respect to a statutory declaration verifying the information specified in the RIN.

4. Audit the information specified in the RIN in accordance with Appendix E to the RIN.

Section 4 of Ausgrid's response demonstrates how Ausgrid has audited the information in accordance with Appendix E of the RIN.

# 1 Provide Information of information in accordance with Schedule 1 of the Notice

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## Structure of response

Schedule 1 to the RIN requires Ausgrid to provide information in writing in accordance with sections 1 to 9 of that schedule.

Attachment 1 provides the information required under section 1.1(a) of schedule 1 of the RIN. Attachment 2 provides the information required under section 1.1(b) of schedule 1 of the RIN. These attachments provide all information required in all regulatory templates, being the worksheets in the Microsoft Excel workbooks attached at Appendix B and C to the RIN. All information has been provided in accordance with the instructions contained in the templates.

Ausgrid has responded to the remaining sections of 1 to 9 of Schedule 1 of the RIN, as set out in the following parts of our response:

**Part A** – provides information in relation to templates 1, 5, 7, 8, 10, 16-19, 21 and 22 of Appendix B to the RIN.

**Part B** – provides information in relation to template 20a of Appendix B to the RIN and Sections 6.1 and 6.2 of Schedule 1.

**Part C** – provides information in relation to template 20b of Appendix B to the RIN and Section 7.1 of Schedule 1.

**Part D** – provides information in relation to templates 1a, 5b and 5d of Appendix C to the RIN.

**Part E** – provides information in relation to templates 1b, 1c, and 3 in Appendix C to the RIN.

**Part F** – provides information in relation to table 2 of template 3 in Appendix C to the RIN.

**Part G** – provides information in relation to table 3 of template 3 in Appendix C to the RIN.

**Part H** – provides information in relation to section 1.1d of Schedule 1 to the RIN.

**Part I** – provides information in relation to section 1.1e of Schedule 1 to the RIN.

**Part J** – provides information in relation to section 1.1f of Schedule 1 to the RIN.

**Part K** – provides information in relation to sections 1.2 and 1.3 of Schedule 1 to the RIN.

**Part L** – provides information in relation to section 1.4a of Schedule 1 to the RIN.

**Part M** – provides information in relation to section 1.4b of Schedule 1 to the RIN.

**Part N** – provides information in relation to section 1.5 of Schedule 1 to the RIN.

**Part O** – provides information in relation to sections 2 and 3 of Schedule 1 to the RIN.

**Part P** – provides information in relation to section 4 of Schedule 1 to the RIN.

**Part Q** – provides information in relation to section 5 of Schedule 1 to the RIN.

**Part R** – provides information in relation to section 8 of Schedule 1 to the RIN.

**Part S** – provides information in relation to section 9 of Schedule 1 to the RIN.

## Part A - Financial templates

### Relevant Background

Template 1 of Appendix B to the RIN requires information on the income statement.

Template 5 of Appendix B to the RIN requires information on capital expenditure.

Template 7 of Appendix B to the RIN requires information on capital expenditure for tax depreciation.

Template 8 of Appendix B to the RIN requires information on network maintenance.

Template 10 of Appendix B to the RIN requires information on network operating costs.

Template 16 of Appendix B to the RIN requires information on avoided cost payments.

Template 17 of Appendix B to the RIN requires information on alternative control and other services.

Template 18 of Appendix B to the RIN requires information on Efficiency Benefit Sharing Scheme.

Template 19 of Appendix B to the RIN requires information on jurisdictional scheme amounts.

Template 21 of Appendix B to the RIN requires information on self insurance.

Template 22 of Appendix B to the RIN requires information on change of accounting policy.

### Explanation of why information cannot be provided or provided in full

The information has been provided in full.

### Assumptions and Methodologies

To complete the financial information in the template, Ausgrid has followed our Cost Allocation Methodology (CAM). This relates to financial Regulatory templates 1, 5, 7, 8, 10, 16-19, 21 and 22.

Capital expenditure on system assets is directly attributed to either standard control services or alternative control services. This attribution is performed based on the asset class.

Capital expenditure on non-system assets which directly and entirely supports the provision of standard control services, alternative control services or unregulated services, are attributed to standard control services, alternative control services or unregulated services, respectively.

Ausgrid also has in place accounting treatment policies (Statement of Accounting Treatments or SATs), Policies and Procedures, standard reporting, accounting and reporting systems, a centralised finance function and qualified staff who are able to manage the requirements. In terms of assumptions, Ausgrid has allocated expenditures, revenues and other line items between disaggregated services and other totals in line with our CAM.

### Standard Control Services Allocation

The capex allocation on standard control services between Distribution Services and Transmission Services is performed by identifying the relationship between the cost captured by each individual project and the asset classes that are classified under the National Electricity Rules (NER) as either transmission network assets or distribution network assets. This information is readily available in SAP for each project. At the end of the financial year, an exercise is performed to review these percentages by way of consultation with the Project Management group for System Capex. Non-system Capex is allocated between Transmission and Distribution services based on transmission system assets as a proportion of total system assets. The proportion is 12.35% for transmission and 87.65% for distribution and is applicable for the current regulatory period.

### Disclosures

- In template 1 - The Regulated Distribution business eliminates consolidation entries between the Standard Control Service - Distribution and Transmission. Ausgrid has recognised TUOS revenue in the Regulated Distribution business column as the consolidation between the two Standard Control Service businesses. This is

a net figure. Therefore the Regulated Distribution is not the addition of Standard Control Services, Alternative Control Services and Negotiated Services.

- Ausgrid has not included capitalised interest costs in capital expenditure numbers.
- In template 5-Capex Table 6 includes gifted assets which are not included in the capital expenditure total. The amount of gifted assets is \$56.965 million.

## Part B - DMIA

### Relevant Background

Template 20a of Appendix B to the RIN requires information on the DMIA Annual Report.

Sections 6.1 to 6.2 of Schedule 1 require descriptions of DMIA and foregone revenue.

### Explanation of why information cannot be provided or provided in full

The information has been provided in full. In relation to clause 6.2 of schedule 1, no foregone revenue is directly attributable to a demand management project or program approved by the AER under DMIA.

### Methodology and Assumptions

#### Information and measurement systems

The SAP financial system is used to capture all expenditures. A specific “order type” (“N920”) has been set up in the financial system, against which DMIA project expenditure is to be recorded. Each authorised project will have a unique order number of this type. This approach allows for interrogation of the financial system to determine if any DMIA related spending has occurred in a particular period.

#### Processes and procedures

A process has been established and listed under Ausgrid’s Procedures Database (Procedure GEN-006). This process defines the approach to proposing and authorisation of projects under the DMIA and ensures that project expenditures are appropriately recorded.

#### *Demand Management Project Proposal & Approval*

When opportunities are identified for new projects, Ausgrid uses the following methodology when assessing projects for funding under the DMIA allowance:

1. **Concept Stage:** For new concepts, approval for project research and development is carried out by the Manager – Demand Management & Forecasting who ensures that the proposed project meets the funding criteria specified under the DMIA Scheme. This component of the project is defined as a Concept Stage 1 project.
2. **Development Stage:** Where early stage research and development indicates a potential viable demand reduction solution, the project is approved to proceed to the Development Stage 2 where a project proposal for a full trial is prepared. Approval to proceed to Stage 2 is by the Manager – Demand Management & Forecasting. The project proposal is prepared according to the Ausgrid DMIA template and guidelines, including additional criteria specified by Ausgrid (repeatability, suitability to geographically specific network constraints, and potential to be cost effective (\$/kVA)).
3. **Implementation Stage:** The project proposal is reviewed by the Manager – Demand Management & Forecasting to ensure it meets the funding criteria specified under the DMIA Scheme and checks are also made to ensure that budget projects costs are within the DMIA allowance. After consideration of the available DMIA budget, proposed projects will be selected for inclusion in the DMIA program and recommended for authorisation at the appropriate delegation level. Projects approved to proceed to a full trial are defined as Stage 3 projects.

#### *Demand Management Project Management and Monitoring*

1. The Manager- Demand Management & Forecasting maintains a register of authorised DMIA projects, monitors the committed funding for each year of the determination and calculates the annual roll forward of unspent or overspent allowance.
2. The Manager- Demand Management & Forecasting monitors progress of projects against performance and spending milestones in the authorised project proposals and reassesses projects as necessary to maintain the program and meet Ausgrid’s objectives for the DMIA.

3. Project Managers prepare annual report information for each project for inclusion in the annual submission to the AER. Annual reports include descriptive information, progress against targets, cost data and a calculation of related foregone revenue.
4. The Manager – Demand Management & Forecasting prepares the annual submission to the AER for approval of the projects, expenditures and foregone revenue claims, including preparation of the necessary certifying statements for signature by the Managing Director.

This year the reported costs under the DMIA involved the “Manager – Demand Management & Forecasting” confirming that \$2,473,150 expenditure had been recorded against DMIA projects in the DMIA register.

#### *Quality control systems*

Project Managers implement projects in accordance with authorised project proposals and provide monthly reports on progress. These reports include timely notification of proposed variations to project scope or changes in costs. Projects are allocated internal orders under a unique order type to facilitate accurate cost capture and reporting.

#### Methodology

A specific “order type” (“N920”) has been set up in the SAP financial system to capture all DMIA project expenditure. This year one adjustment was made to the expenditure captured under order type N920 in preparing the final reported costs under DMIA:

- i. An amount of \$3,889 was incorrectly allocated to a N921 order type, for works related to an eligible DMIA project. This has been included in the reported DMIA project costs.

Ausgrid accordingly verified that \$2,473,150 expenditure had been captured for eligible DMIA projects in 2013/14.

#### Key assumption

That all project expenditure that Ausgrid would seek to claim under the DMIA is related to properly authorised projects.

#### **DMIA Annual Report**

Attachment 5 contains the DMIA annual report and addresses the compliance requirements of Schedule 1, clause 6.1.

## **Part C - D-Factor**

#### **Relevant Background**

Template 20b of Appendix A to the RIN and Section 7.1 of Schedule 1 requires information on the D-Factor.

#### **Explanation of why information cannot be provided or provided in full**

The information has been provided in full.

#### **Methodology and Assumptions**

Actual costs incurred are collected by project in the Ausgrid financial system. A specific order type (“N919”) has been set up in the SAP financial system to capture all D-Factor project expenditure. The amounts claimed are those actually booked to each project in the applicable year. Costs include development and implementation costs, project management and other directly related costs, but exclude costs related to DM investigations.

The following methodologies and assumptions are used for preparing Ausgrid's submission under the D-Factor scheme.

The submission is arranged by project. For each project, the following information is prepared:

- A description of the DM project undertaken, including the target capital and operating costs to be deferred and the decision making process followed.
- Details of the costs incurred in 2013-14.
- Calculation of avoided network cost cap applicable to the 2013-14 claim, based on the avoided network costs anticipated at the time of the decision to undertake the DM project.
- Estimate of revenue foregone in 2013-14 due to the DM project.
- Details of relevant assumptions and methodologies underlying these estimates.

The methodology for estimating avoided costs is according to the relevant D-Factor guidelines, based on the expected costs of network projects at the time of deciding to implement the DM alternative, as documented in the relevant planning documents of the time. The value is expressed as a present value in 2013-14 dollars based on anticipated real cashflows and a real discount rate of 7.47%.

One project active in 2013-14 was undertaken on the basis of reducing load at risk with the calculation of avoided distribution costs based on the apportioning model endorsed by IPART in February 2007. Under this methodology, the ADC cap attributable to a project is based on the expected reduction in load at risk resulting from the project. Where the project expenses are due to project development costs, and the project details are not final, this has been estimated based on the results of the investigation. The ADC proportion will be recalculated when the project is fully developed and authorised and the revised ADC proportion identified in future D-factor claims. Details of this methodology may be found in the IPART document '*Tribunal 2007 Preliminary Assessment of Methodology for Apportioning Avoided Distribution Costs under the D-Factor Mechanism - 2004 Determination - February 2007*'.

Where avoided cost caps have been determined in previous years, that amount remaining under the cap is calculated by subtracting the costs claimed against the cap in 2012/13 and grossing up the residual to 2013-14 dollars using the nominal rate of return of 10.02%.

The methodologies for assessing foregone revenue are based on a detailed assessment of the impacts on quantities at each individual customer site. The generalised method used for power factor correction projects is common to all projects of this type and is detailed in Appendix 1.

The method for assessing the energy efficiency projects involves an engineering assessment of the change in all relevant tariff quantities that might be affected by the measures undertaken at each site.

For each measure at each site, actual monthly billing data is collected. Actual measured quantities for each month after installation are then adjusted to account for the calculated impact of the measure implemented to determine what the quantities would have been in the absence of the measure. The differences in each month are then multiplied by the applicable DUOS price components to arrive at the foregone revenue for the year.

#### **D-Factor Annual Report**

Attachment 6 contains the D-Factor annual report and addresses the compliance requirements of Schedule 1, clause 7.1.

## **Part D - Reliability**

### **Relevant Background**

Table 1 of Template 1a in Appendix C to the RIN requires information on SAIDI for each network categorisation.

Table 2 of Template 1a in Appendix C to the RIN requires information on SAIFI for each network categorisation.

Table 3 of Template 1a in Appendix C to the RIN requires average distribution customer number for each network categorisation.

Table 1 of Template 5b in Appendix C to the RIN requires annual feeder reliability data.

Table 1 of Template 5d in Appendix C to the RIN requires information on planned outages for each network categorisation.

### **Explanation of why information cannot be provided or provided in full**

Planned events - All measures relating to Planned events are not complete as the times recorded for planned events managed by the Sydney Control Room reflect the period in which the outage was expected to occur, not the actual off and on times customers experienced.

### **Source of Information**

Data used to populate tables has been taken from outage event records located in Ausgrid's Outage Management System (OMS) and its related reporting environment.

Final outage event records are manually entered into OMS after outage events. Fields within each record are entered both automatically and manually and are subject to quality assurance checks.



Information for interruptions affecting single premises is sourced from OMS with completion information from Ausgrid's Customer Aided Service System (CASS) which interfaces to OMS. For other network events, supply restoration and other information is recorded by System Operators in the Sydney control room on Interruption Report Forms (blue forms), or by System Operators in the Newcastle control room on Line Impedance Data (LID) system reports, and on switching sheets. This information is reconciled into OMS post event. Following an outage, an Ausgrid officer validates the existing OMS record against the blue form or LID system report and customer call data. If the existing outage event record can be made to accurately reflect interruption details it is completed. Otherwise, the event is recreated in OMS based on switching details such that the record accurately reflects the restoration switching.

OMS automatically calculates CI and CMI by combining the following information:

- Electrical connectivity details from Ausgrid's Graphical Information System (GIS)
- Interruption and restoration steps as recorded by System Operators
- National Metering Identifier (NMI) information from SAP, Customer Care Solution (CCS) and Business to Business (B2B)

The automatic calculation of CI and CMI is based on NMIs and therefore excludes all unmetered supplies. CI and CMI calculations are automatic on the basis of manually entered interruption and switching steps. SAP, CCS and B2B are used to exclude inactive customers (permanently disconnected) from the calculation of CI and CMI.

The reporting environment contains data extracted from OMS that has been cleansed to remove redundant data. Relevant calculations such as SAIDI and SAIFI are also added to records within the reporting environment. The reporting environment facilitates the extraction of information into a range of Business Objects reports. The reporting environment also contains reference tables developed within the Tool for Oracle Application Developers (TOAD). One reference table contains feeder categorisation on an annual basis.

The source data for planned interruptions is from two databases; LID for the Newcastle control room and Disconnect Reconnect Order System (DAROS) for the Sydney Control Room. For the 2014 regulatory year planned outages from both LID and DAROS were manually entered into OMS.

Key Elements of the Methodology:

1. A Business Objects report (AER RIN 2013 - 14 DAILY ACTIVE NMIS & DAILY ACTIVE NMIS FED Ver 1.1 ANNUAL AER V2.xls) was extracted from the reporting environment on (21/07/2014) for the 2014 regulatory year. The report provides the summarised results for events as required for the templates and tables described. All the information is copied into the relevant RIN tables, with only minor modification to suit the RIN's formatting and consolidation requirements. The only "manual" processing is for Template 5b. Table 1 whereby the line lengths, maximum demand and energy not supplied comes from another source.
2. It is recognised that the feeder category and number of customers may change throughout the year and therefore that data is as at the end of the 2013-14 year.

Key assumptions used in methodology:

1. All outage event attributes are correctly entered in OMS.
2. The NMI connectivity details in GIS are correct at the time of outages, or that any errors are managed through manual processes to determine the actual customers affected by an event, or by holding out outage event records in the OUTAGES\_NOT\_IN\_OMS table until GIS updates are received.
3. Ausgrid calculates reliability metrics differently from Appendix A of the STPIS due to technical constraints. Reliability metrics are calculated as follows:

Note 1: All reliability metrics are calculated using daily customer counts. Ausgrid has consistently adopted this approach because average customer counts do not result in stable metrics suitable for trend analysis due to the constant adding, removing and reconfiguring of feeders. (Different)

Note 2: All unmetered supplies are excluded from the calculation of reliability metrics. (Compliant)

Note 3: All active customers are included in the calculation of reliability metrics. All inactive customers are excluded in the calculation of reliability metrics. The following assumptions regarding customer counting have been made:

Active = Energised + De-energised

Inactive = Extinct = Deactivated

De-energised<sub>(AER)</sub> = Temporary disconnection<sub>(AUSGRID)</sub>

Inactive<sub>(AER)</sub> = Permanent disconnection<sub>(AUSGRID)</sub>

(Compliant)

4. All customers connected to a three phase low voltage supply are interrupted for the entire duration of an event. This approach is adopted because the accurate determination of customers connected to each phase of a low voltage supply is currently not possible.
5. The 2014 TMED has been applied to 2014 regulatory year in Table 1 & 2 in Template 1a. STPIS Reliability Data as per the requirements of this notice.
6. For Distribution planning the maximum demand data (Template 5b):
  - a. Feeder maximum demand was selected following procedure DOR-PCD-10006. Feeders with no available load data have been assumed to be 0MW.
  - b. A power factor of 0.953 was used based on Ausgrid's system compensated power factor for summer 2013/14.
  - c. A nominal distribution voltage of 11,000V was used.
  - d. Average customer demand was calculated using a network load factor of 28.164%.
  - e. Energy not supplied unplanned is calculated by multiplying the number of customers, average customer demand (utilising average feeder demand derived from feeder maximum demand and estimated load factor, divided by the number of customers on the feeder) and unplanned customer minutes off supply (including excluding events and MEDs).
  - f. Energy not supplied planned is calculated by multiplying the number of customers, average customer demand (utilising average feeder demand derived from feeder maximum demand and estimated load factor, divided by the number of customers on the feeder) and planned customer minutes off supply.
7. For GIS length of distribution lines (Template 5b):
  - a. The length of overhead high voltage and underground high voltage conductors provided in table 1 Annual Feeder Reliability Data have been calculated using data recorded in Ausgrid's Geographic Information System as of 30 June 2014.
  - b. These lengths are calculated in accordance of the definition Circuit Line Length in Economic Benchmarking RIN Instructions and Definitions.pdf.
  - c. The length includes all spurs, and each phase is not counted but calculated as a single length. The total does not take into account vertical displacement cause by vertical segments, changes in elevation, or line sag.

## Part E - Customer service

### Relevant Background

Table 1 of Template 1b in Appendix C to the RIN requires information on telephone answering.

Table 1 of Template 1c in Appendix C to the RIN requires daily customer service call information.

Table 3 (timely provision of services and call centre performance sections) of Template 3 in Appendix C to the RIN requires information on timely provision of services and call centre performance.

### Explanation of why information cannot be provided or provided in full

No instances of information that cannot be provided.

### Assumptions and Methodologies

#### Telephone Answering, Daily Customer Service Call Information, and Call Centre Performance:

Ausgrid implemented a new automated call routing solution in January 2012. This system separates calls abandoned from the automated system from those abandoned from human operators.

Like for like comparisons of network providers' performance applies only to the percentage of calls abandoned from those presented to human operators, i.e. excluding calls abandoned from the automated system as these calls are never presented to human operators.

Ausgrid utilises a combination of Genesys, Alcatel and Rockwell technologies to service its Network related calls. The resulting data generated from these technologies is consolidated via Business Objects Universes and reported via Web Intelligence reports.

The telephone number is 131388 (during this reporting period additional retail based phone numbers are included as they provide functionality to be routed and report a network fault.)

Ausgrid Network Call Centre volumes are determined by grouping all "Emergency" routed call statistics then deducting any Network deemed event days from each statistic reported. The net result is then reported in a detail and summary

report AERDaily1314 RIN.xls. The report is reviewed by Business Intelligence and Network Operational Managers then submitted for approval by the Customer Services Executive Manager.

#### Timely Provision of Services – Reconnections:

All reconnections are entered and captured in OMS (Outage Management System). These requests are dispatched to field officers to arrange reconnection. OMS captures the date and time of the request and the date and time of the reconnection made.

Reconnection turnaround is calculated based on the above two date/time variables.

## **Part F - Complaints**

### **Relevant Background**

Table 2 of Template 3 in Appendix C to the RIN requires information on complaints – technical quality of supply.

### **Explanation of why information cannot be provided or provided in full**

No instances of information that cannot be provided.

### **Assumptions and Methodologies**

For the purposes of this report, the following definitions from the AER's "Regulatory Information Notice" have been used:

Complaint:

*A written or verbal expression of dissatisfaction about an action, a proposed action, or a failure to act by a distributor, its employees or contractors. This includes failure by a distributor to observe its published practices or procedures.*

Complaints – Technical Quality of Supply – Number:

*The total number of complaints made to Ausgrid where the complaint raised issues about voltage variations.*

Customer Complaints - Total:

*The total number of complaints made to Ausgrid including all written or emailed complaints, and complaints to the call centre.*

#### Methodology

Quality of supply complaints data was sourced and interrogated as per Ausgrid's - "Procedure for sourcing data and producing reports in relation to network related complaints".

The interrogated data for the RIN report is contained in the spreadsheet "Network Complaints Performance Report (Data Corrected)-RIN.xls", (see worksheet > "RIN Complaints Comp Corrected").

## **Part G - Streetlights**

### **Relevant Background**

Table 3 (streetlight section) of Template 3 in Appendix C to the RIN requires information on timely repair of faulty streetlights.

### **Explanation of why information cannot be provided or provided in full**

No instances of information that cannot be provided.

### **Assumptions and Methodologies**

1. Streetlights - average monthly number "out"

The total number of street lights reported by Customers as not working over the year, divided by twelve.

2. Streetlights - not repaired by "fix by" date

The total number of standard or non-standard fittings not repaired or replaced within 8 business days of a fault report, and excluding faults that are excluded under the NSW Public lighting Code.

3. Streetlights - average number of days to repair

The average number of days to repair street lights that were reported as not working. Note: This excludes faults that are excluded under the NSW Public lighting Code.

#### 4. Total streetlights

The total number of streetlights for which Ausgrid has responsibility to maintain (Rate 1 and Rate 2 Lights).

## **Part H - Reconciliation of movements**

### **Relevant Background**

Section 1.1(d) of Schedule 1 requires a Microsoft Excel workbook or other information that reconciles and explains all movements between the Audited Statutory Accounts and the Regulatory Accounting Statements.

### **Explanation of movements between the Audited Statutory Accounts and the Regulatory Accounting Statements**

The adjustment column in the RIN template represents the adjustments made to audited Statutory accounts to arrive at the accounts for the regulated distribution business. The adjustments include unregulated activities, re-classifications and other variances to the statutory accounts. Refer to the RIN for further explanation.

## **Part I - Capitalisation Policy**

### **Relevant Background**

Section 1.1(e) of Schedule 1 requires the Capitalisation Policy for 2013/14.

The Capitalisation Policy is provided in Attachment 8.

## **Part J - Cost Allocation Method**

### **Relevant Background**

Section 1.1(f) of Schedule 1 requires the statement of policy/s for determining the allocation overheads in accordance with the Cost Allocation Method for 2013/14.

Refer to the Cost Allocation Policies and Procedures (section 6 – page 9) outlined in Ausgrid's CAM 28 March 2008.

## **Part K - Material differences**

### **Relevant Background**

Section 1.2 of Schedule 1 requires identification of the Material difference between amounts reported in the RIN templates and amounts provided for in the 2009-14 Distribution Determination for 2013/14.

Section 1.3 requires reasons for any underlying operational activities or drivers that caused each Material Difference identified in 1.2.

#### **(a) total actual revenue and total forecast revenue**

The difference between total actual revenue and total forecast revenue is driven by the variance between actual and forecast CPI, the variance between actual and forecast overall volumes and the variance between the actual and forecast component level volumes and pricing strategy.

#### **(b) total actual Operating Expenditure and total forecast Operating Expenditure**

Please refer to comments included in template 10, table 2 of the Electricity DNSP Annual Reporting template – Financial Information.

#### **(c) total actual Maintenance Expenditure and total forecast Maintenance Expenditure**

Please refer to comments included in template 8, table 2 of the Electricity DNSP Annual Reporting template - Financial Information.

#### **(d) total actual Capital Expenditure and total forecast Capital Expenditure**

Please refer to comments included in template 5, table 1 of the Electricity DNSP Annual Reporting template – Financial Information.

#### **(e) total actual demand and total forecast demand**

At the time of 2009-14 Regulatory Determination, the forecast total actual demand for summer 2013/14 was 7032 MW. The total actual demand for summer 2013/14 was 4880 MW. The actual demand for summer 2013/14 was 30.6% lower than forecast.

This discrepancy can be attributed to a number of contributing factors:

- Summer 2013/14 weather conditions which were relatively mild in terms of the number of hot days;
- Depressed economic conditions arising from the Global Financial Crisis (GFC). The Regulatory Determination forecast was done prior to the onset of the GFC and was based on historical demand data which showed steady year on year growth;
- Energy efficiency impacts due to government policy in areas such as appliance energy efficiency standards, building construction standards (BCA) and energy savings scheme;
- Uptake of rooftop PV driven mainly by generous state government incentives - i.e. Solar Bonus Scheme; and
- Electricity price rises and resultant customer response to decrease their demand.

## **Part L - Classification of Services**

### **Relevant Background**

Section 1.4(a) of Schedule 1 requires information in respect of classification of services, and an explanation of the procedures and processes used by Ausgrid to ensure that the distribution services have been classified as determined in the 2009-14 Distribution Determination.

### **Explanation of procedures and processes to ensure compliance with the classification of services**

Ausgrid has a comprehensive compliance system in place to monitor compliance with the NSW Distribution Licence Conditions, National Electricity Rules, National Energy Retail Rules and Ausgrid's 2009-14 Distribution Determination. In respect of classification of services Ausgrid uses four groupings:

- Direct (standard) control services which include DUoS services, private power line inspections, customer installation inspections, emergency recoverable works, monopoly and miscellaneous services
- Alternative control services which include construction and maintenance of public lighting
- Negotiated distribution services
- Unregulated services which include customer funded connections, customer specific services, metering services type 1-4.

We examine the nature of the activities undertaken by each of the business units to ensure the correct classification of the distribution services we provide. All costs incurred in undertaking these activities are then allocated to the above service classification in accordance with the requirements of the Cost Allocation Method (CAM) approved by the AER. Compliance with the CAM is a regulatory requirement under clause 6.15.6 of the Transitional Chapter 6 of the National Electricity Rules and also a requirement in Part 3 of the NSW Ring Fencing Guidelines. Therefore Ausgrid ensures that the regulated and unregulated businesses are separately identifiable. In the 2008 AER CAM determination, the AER stated that "The AER is satisfied that the allocators used to allocate capital expenditure in Ausgrid's (formerly EnergyAustralia) CAM comply with the cost allocation guidelines in the Accounting Separation Code".<sup>1</sup> This CAM was still applicable to the 13/14 RIN Reporting period.

<sup>1</sup> Source: Page 9 AER NSW electricity distribution network service providers, Final Decision, March 2008

To date Ausgrid has not been requested to provide any negotiated distribution services or any negotiable components of any direct control services; consequently there has been no requirement to apply the negotiable component criteria.

From a price control perspective the regulated business prices are examined for compliance by the AER as part of Ausgrid's annual pricing proposal process.

Ausgrid has submitted annual regulatory accounting reports (via the RIN) which include both financial and non financial information using the AER RIN reporting templates. The financial information is audited by an external auditor who must also ensure compliance with Ausgrid's AER approved CAM.

## Part M - Arrangements for Negotiation

### Relevant Background

Section 1.4(b) of Schedule 1 requires an explanation of the procedures and processes used by Ausgrid to ensure that the negotiable component criteria (NCC), as set out in the 2009-14 Distribution Determination, have been applied.

### Procedures and processes to ensure that the Negotiable Component Criteria (NCC) of the Distribution Determination have been applied

Ausgrid did not receive any applications for the provision of negotiable components of a direct control services during the 2013-14 year. If a service applicant had applied in writing for the provision of a Negotiable Component of a Direct Control Service as per the AER Determination, it would have been dealt with on a case by case basis by developing a suitable Negotiated Customer Connection Contract (NCCC). This would have been done in accordance with Appendix B Negotiable Component Criteria and Appendix E EnergyAustralia (*sic*) Negotiating Framework of the AER Determination. Clause 3 of Ausgrid's internal Customer Installations Advice (CIA) 72C provided guidelines on how such a NCCC would have been developed by Ausgrid.

Prior to the implementation of the NECF from 1 July 2013, the Standard Form Customer Connect Contract (SFCCC) had proved satisfactory for all Ausgrid's customer connections. However, the SFCCC contract has been replaced, due to the introduction of NECF on 1 July 2013, so the procedure detailed here from clause 3 of CIA 72C would no longer be used. In accordance with the relevant NECF legislative instruments including Part C Negotiated connection of Chapter 5A, connection applicants have the right to negotiate their connection contract with Ausgrid, to establish a negotiated connection contract. The negotiations may, if the connection applicant elects, also extend to supply services provided by Ausgrid, under the provisions of its Deemed Standard Connection Contract.

Ausgrid and the connection applicant must negotiate in accordance with the negotiation framework set out in clause 5A.C.3 Negotiation framework of Chapter 5A.

The process required by Chapter 5A would have applied to all connection related negotiable components of direct control services because Clause 5A.C.1 (e) provides:

*(e) If, but for this paragraph, a contract negotiable under this Part, or parts or aspects of such a contract, would also be negotiable under Chapter 6, this Part applies to the exclusion of the relevant provisions of Chapter 6.*

To fulfil these legislative requirements, Ausgrid has prepared the Connection Negotiation Process, July 2013, available on Ausgrid's website, together with the relevant website information (Negotiating a Connection Offer page), available via this link: <http://www.ausgrid.com.au/connectingtothenetwork>.

Internal procedural documentation has also been published to assist Ausgrid staff in fulfilling these requirements, including Network Operations Work Instruction – Customer Connections under the NECF – NOWI 45/13, and the Checklist for negotiated offer.

## Part N - Negative change events

### Relevant Background

Section 1.5 of Schedule 1 requires a description of the process Ausgrid has in place to identify negative change events under clause 6.6.1(f) of the NER and the threshold of materiality applied by Ausgrid to these events.

### Description of the process Ausgrid has in place to identify negative change events

Ausgrid has a comprehensive compliance system in place to monitor compliance with the NSW Distribution Licence Conditions, National Electricity Rules, National Energy Retail Rules and Ausgrid's 2009-14 Distribution Determination.

In respect of negative change events, Ausgrid has established and implemented an internal procedure 'RG000-P0011: Reporting and Identifying cost pass through events' that outlines the requirements of the National Electricity Rules with respect to pass through events and the process for identifying and reporting negative change events. This procedure and process ensures that Ausgrid can appropriately fulfill its obligations under the NER.

Through this process, Ausgrid can confirm that no negative change events as defined by clause 6.6.1(f) of the NER have been identified for the period 1 July 2013 to 30 June 2014,

In relation to materiality, the term “materially” is defined in Chapter 10 of the NER as an event that results in a Distribution Network Service Provider incurring materially higher or materially lower costs if the change in costs (as opposed to the revenue impact) that the Distribution Network Service Provider has incurred and is likely to incur in any regulatory year of a regulatory control period, as a result of that event, exceeds 1% of the annual revenue requirement for the Distribution Network Service Provider for that regulatory year.

Ausgrid has adopted this definition of “materially” in its procedure for identifying and reporting on negative change events.

## **Part O - Cost allocation to the regulated distribution business and service segments**

### **Relevant Background**

Section 2.1 of Schedule 1 requires identification of each item in the Regulatory Accounting Statements that is:

- (a) not allocated on a directly attributable basis but is allocated on a causation basis to the distribution business; and
- (b) not allocated on a directly attributable basis and cannot be allocated on a causation basis to the distribution business.

Section 3.1 of Schedule 1 requires identification of each item in the Regulatory Accounting Statements that is:

- (a) not allocated on a directly attributable basis but is allocated on a causation basis from the distribution business to a service segment; and
- (b) not allocated on a directly attributable basis and cannot be allocated on a causation basis from the distribution business to a service segment.

Section 2.2 and Section 3.2 of Schedule 1 requires for each item identified in 2.1(a) and 3.1(a), the amount of the item that has been allocated; an explanation of the method of allocation and reasons for choosing that method; and the numeric amount of the allocator(s) used.

Section 2.3 and Section 3.3 of Schedule 1 requires for each item identified in 2.1(b) and 3.1(b), its amount; whether it was Material; an explanation of the method of allocation and reasons for choosing that method; and an explanation of the reason(s) why it cannot be allocated on a causation basis.

### **Ausgrid's methodology of defining direct vs. indirect expenditure**

Direct costs are those costs directly allocated to a project and/or activity (ie. cost object) and not allocated to a cost object by virtue of an allocation method. Direct costs include labour & labour associated on-costs (ie. leave entitlements, superannuation etc.), materials expenditure, contract services, plant hire etc., and represent expenditure directly attributable in the delivery of the project and/or activity as defined by the RIN.

Indirect costs are costs which are attributed to a cost object by means of an allocation process. Indirect costs are allocated to a cost object based on some nominated driver (ie. labour dollars), having regard for the need to allocate appropriately all expenditure to a project and/or activity. Indirect costs include all assessment of management overheads, the transfer of inter-branch charges associated with fleet & logistics expenditure and direct overheads (ie. wet weather, administrative support etc.), associated with 'front line' groups.

From a systems perspective, both direct and indirect costs are readily identifiable as either directly or indirectly allocated to a cost object.

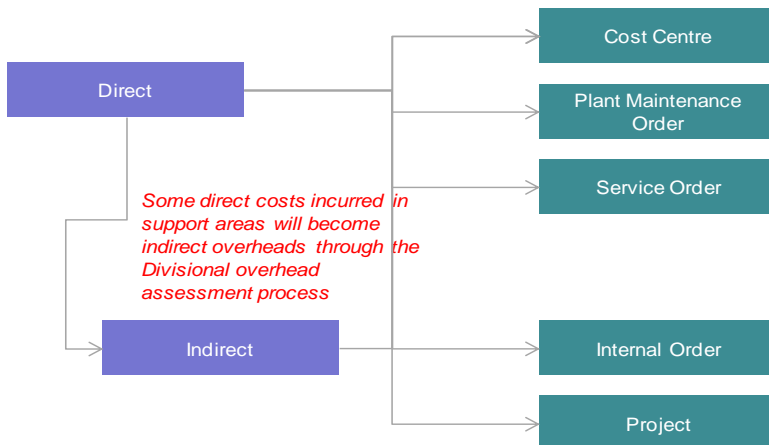
Ausgrid's allocation methodology is below.

## Ausgrid's Allocation Methodology - Summary

### Costs

Costs are captured in Ausgrid's financial management reporting system, SAP. Cost objects and cost elements are used within SAP to identify the nature and source of the expenditure incurred. Costs are incurred either directly or indirectly on a cost object. For example:

- Labour is incurred directly by the resource owning cost centre for payroll. Labour is then allocated to a PM Order, Service Order, Internal Order or a Project's WBS element based on an individual's timesheet
- Materials purchased directly for a project are costed directly to that project's WBS element



### Allocations

Costs are then allocated:

- (1) To a Line of business in order to distinguish between alternate, standard and unregulated services,
- (2) Standard control services are then split by Transmission or Distribution, and
- (3) Overhead costs are allocated to a activity (cost object) in which they supported

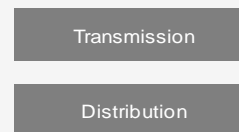
#### Line of Business allocations



Line of business allocations are performed using pre defined rules based on "activity".

- A cost centre is allocated to either one or shared across many lines of business based on the activities performed within that cost centre
- Plant maintenance orders are allocated based on a combination of the order type and asset group
- Internal orders are either directly allocated to one line of business or shared based on its default cost centre
- Service orders are allocated based on a combination of their order type and activity type

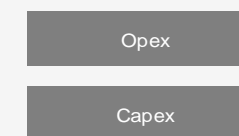
#### Transmission / Distribution split (Network Line of Business only)



Costs are allocated to Transmission and Distribution based on the following methodologies:

1. **Direct allocation:** For example, specific Internal orders and cost centres are allocated to either transmission or distribution based upon the nature of the work.
2. **Allocation based on RAB value:** Maintenance is allocated based upon the opening RAB values at the start of the period.
3. **Residual allocation:** Corporate and support costs not allocated through the above methods are allocated based on the proportion of allocation in (1) and (2)

#### Overhead allocation



Overhead costs are allocated to capex and opex activities either directly or indirectly. A cost object is defined either as capital or operating based on the nature of the activity performed.

Divisional assessments provide the vehicle in which overhead indirect costs are capitalised.



## Part P - Related Party Transactions

### Relevant Background

Section 4.1, 4.2 and 4.3 of Schedule 1 require information on related party transactions.

Ausgrid Pty Limited ACN 060 979 688 is a wholly owned subsidiary of Ausgrid. Ausgrid Pty Limited is the body that provides the head office accommodation at 570 George Street, Sydney including accommodation for a control room and is therefore considered to be a body that contributes to the provision of distribution services by Ausgrid. The contracts that relate to the provision of distribution services by Ausgrid include a lease agreement (the Ausgrid Lease) and a Licence Agreement.

Ausgrid has granted to Ausgrid Pty Ltd a lease of the whole of the Ausgrid Building excluding certain premises subject to existing leases. The Ausgrid Lease is for a term commencing on 7 March 2014 and expiring on 30 June 2016 with one option to renew for a period of one year expiring on 30 June 2017.

Although Ausgrid has granted the Ausgrid Lease to Ausgrid Pty Ltd, Ausgrid still needs a right to use and occupy and operate its business from the Ausgrid Building. By a licence, Ausgrid Pty Ltd as licensor has proposed to grant the right to Ausgrid as licensee to use and occupy and operate its business from the Ausgrid Building. The licence agreement has a term concurrent with the lease between Ausgrid Pty Ltd and Far East Organisation.

Networks NSW Pty Ltd is an unincorporated joint venture between Ausgrid, Endeavour Energy and Essential Energy for the purposes of joint procurement and the provision of certain services. Each party also holds 1/3 of the shares in Networks NSW Pty Ltd, a Corporations Act company that was incorporated to act as agent for the joint venture.

There were no amounts greater than 5% of the relevant total expenditure or revenue category.

## Part Q - Efficiency Benefit Sharing Scheme

### Relevant Background

Section 5.1 and 5.2 of Schedule 1 require information on changes to the Capitalisation Policy between 2013/14 and 2012/13.

There were no changes in Ausgrid's Capitalisation Policy.

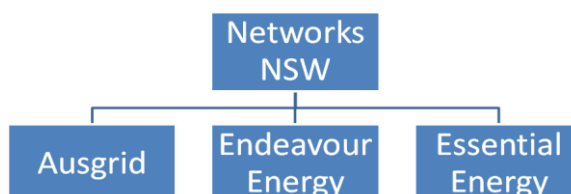
## Part R – Charts

### Relevant Background

Section 8.1 of Schedule 1 requires charts that set out the group corporate structure of which Ausgrid is a part, and the organisational structure of Ausgrid.

#### Charts of Ausgrid's group structure and organisational structure

The group corporate structure of which Ausgrid is a part:



The organisational structure of Ausgrid:



## Part S - Results of the Audit

### Relevant Background

Section 9.1 requires Ausgrid to provide the results of the audit as specified in Appendix E, namely a Special Purpose Financial Report and an audit report for Non-Financial Regulatory Templates information.

### Results of the audits

The information specified in Appendix E has been audited. Ausgrid engaged Ernst and Young to undertake an audit of the financial templates as specified in 1.1(a) of Appendix E of the RIN and the non-financial information as specified in 1.1(b) of Appendix E of the RIN.

Ernst and Young's Special Purpose Financial Report/final report at Attachment 3 and their final report at Attachment 4 demonstrate that Ausgrid has complied with this requirement.

## 2 Demonstrating compliance with Schedule 2 of the RIN

This section demonstrates that Ausgrid has prepared and maintained information in accordance with Schedule 2 of the RIN.

### Demonstration of compliance with 1.1 of Schedule 2

The following section describes how Ausgrid has complied with each element of part 1.1 of Schedule 2 of the RIN

#### 1.1(a)

The AER has required that Ausgrid prepare all information in the manner and form in accordance with the principles and requirements specified at Appendix A to the RIN.

In this respect, Ausgrid has complied with the principles and requirements contained in Appendix A to the RIN.

#### 1.1(b)

The AER has required that Ausgrid prepare all information in the manner and form as set out and required in all regulatory templates, being the worksheets in the Microsoft Excel workbooks attached at Appendix B and C, as amended by the AER on 6 August 2014 in accordance with the instructions provided in the Notice;

In this respect, Ausgrid has complied with the instructions contained in the Notice. This can be demonstrated by 1.1(c) below.

#### 1.1(c)(i)

The AER has required that Ausgrid prepare all information in the manner and form which includes all underlying calculations and formulae, and supporting documentation.

Ausgrid has not altered the underlying calculations and formulae in any cell of the regulatory templates. Ausgrid has only entered numbers and text into the required cells to ensure that the calculations and formulae have not been altered.

#### 1.1(c)(ii)

The AER has required that Ausgrid prepare all information in the manner and form which is not password protected;

Ausgrid has not password protected the files relating to the regulatory templates. In addition, Ausgrid has not password protected any worksheet or cell contained in the file.

### **1.1(c)(iii)**

The AER has required that Ausgrid prepare all information in the manner and form which allows for precedents and dependents to be traced

Ausgrid has not altered the regulatory templates to disable the ability for precedents and dependents to be traced. As noted above, Ausgrid has not included any formulas or underlying calculations when completing the templates.

### **1.1(c)(iv)**

The AER has required that Ausgrid prepare all information in the manner and form which is capable of a 'copy and paste' function being applied to it

Ausgrid has not altered the regulatory templates to disable the capability of a copy and paste function being applied.

### **1.1(c)(v)**

The AER has required that Ausgrid prepare all information in Microsoft Word, Excel or Adobe PDF format as appropriate.

Ausgrid has provided the information in the appropriate format(s).

### **1.1(c)(vi)**

The AER has required that Ausgrid prepare information so that it is verifiable by the AER, an auditor or independent third party upon inspection and/or by reference to the Audited Statutory Accounts.

Ausgrid has submitted the completed templates at Attachment 1 and 2 to this response. Several of these templates have been independently audited. Both audited and unaudited templates are verifiable.

### **1.1(c)(vii)**

The AER has required that Ausgrid prepare all information in the manner and form which is readily available for inspection by or submission to the AER.

Ausgrid has submitted the completed templates at Attachment 1 and 2 to this response. This would presumably provide the ability for the AER to inspect the regulatory templates submitted to it.

### **1.1(d)**

The AER has required that Ausgrid prepare all information in the manner and form which is set out and required in Schedule 1 of the RIN. This is covered in Section 1 – 'Provide Information in accordance with Schedule 1 of the Notice' on page 3.

## **Demonstration of compliance with 1.2 of Schedule 2**

The following section describes how Ausgrid has complied with each element of part 1.2 of Schedule 2 of the RIN.

Ausgrid engaged Ernst and Young to undertake an audit of the financial templates as specified in 1.1(a) of Appendix E of the RIN, and the non-financial information as specified in 1.1(b) of Appendix E of the RIN.

### **1.2(a) and (b)**

The AER required that Ausgrid engage a person/s who satisfies the requirements of paragraph 2 in Appendix E of the RIN that expresses a reasonable or positive level of assurance.

Ernst and Young's final reports at Attachment 3 and 4 demonstrate that Ausgrid complied with this requirement.

## **Demonstration of compliance with 2.1 of Schedule 2**

The following section describes how Ausgrid has complied with part 2.1 of Schedule 2 of the RIN. This demonstrates that Ausgrid has put in place procedures to maintain the information required by the AER until 30 June 2019.

Ausgrid has established a folder in TRIM (Ausgrid's document management system) which will maintain records until at least 30 June 2019. There are two broad types of information that Ausgrid will maintain:

## 1. Direct information provided to the AER.

Ausgrid will (electronically) maintain a copy of all information provided to the AER as part of our response to the RIN including:

- The completed Excel templates at Attachment 1 and 2 to this response.
- Ausgrid's written response to the AER, including the information provided in response to Schedule 1 of the Notice, and the information demonstrating compliance with other elements of the RIN.

The Network Regulation branch has responsibility for ensuring that this material is maintained until 30 June 2019.

## 2. Accounting records

Ausgrid will (electronically) maintain a copy of accounting records that:

- record and explain the transactions and financial position of Ausgrid;
- enable the Regulatory Accounting Statements to be prepared in accordance with the RIN;
- allow an auditor to conveniently and properly form an opinion on the Regulatory Accounting Statements in accordance with the principles and requirements set out at Appendix A.

Finance and Compliance division has responsibility for ensuring that this material is maintained until 30 June 2019.

# 3 Verification of information specified in the RIN

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Ausgrid has amended the form of verification from that required in Appendix D to the RIN because it does not appropriately reflect the obligations imposed by the RIN, in particular it does not provide for information which has been identified as not provided or incomplete. In addition, the composite nature of paragraph 3 does not appropriately deal with prospective obligations to maintain information in the manner and form required by the RIN. It is not possible for an officer to verify the accuracy of information which is to be prepared and maintained at future point. It is only possible for an officer to verify that procedures have been put in place to maintain the information in the form required under the RIN.

The verification prepared by Ausgrid separates out each element of the verification so that Paragraphs 3, 4 and 5 of the amended form of verification now set out clearly:

- What information Ausgrid has provided in response to the RIN, the manner in which that information has been provided and confirms that Ausgrid has put in place procedures to maintain that information in the form required until 30 June 2019.
- That Information subject to audit is excluded from the verification<sup>2</sup>.
- That the information (other than audited information) provided to the AER is true and correct in all material respects and, except where the information has been identified as incomplete or unavailable, can be relied upon by the AER for the specified purposes.
- That the information provided to the AER has been prepared in the manner and form required in the RIN.
- That Ausgrid has put in place procedures to maintain the information in the form required in the RIN to enable the AER to rely upon it for the specified purposes.

At the same time Ausgrid has taken the opportunity to amend the reference to Ausgrid's shareholders and scope of distribution network service area to give these details the precision required for a Statutory Declaration. Paragraph 2 of the amended form of verification now more precisely describes Ausgrid's status under NSW law and also as a regulated network service provider under the NEL.

The amended form of statutory declaration has been signed by an Ausgrid officer and is at Attachment 7 to this response.

# 4 Demonstration of compliance with audit requirements

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Ausgrid engaged Ernst and Young to undertake an audit of the financial templates as specified in 1.1(a) of Appendix E of

<sup>2</sup> Ausgrid's verification adopts the exceptions for audited information included in paragraph 3 of the AER's form of Statutory Declaration although it is noted that these exceptions extend to information which was not required to be audited.

the RIN, and the non-financial information as specified in 1.1(b) of Appendix E of the RIN.

Ausgrid required Ernst and Young to undertake an audit of the information in accordance with Appendix E and paragraph 1.2 of Schedule 2 of the Notice. The final reports of Ernst and Young demonstrate that the auditor has undertaken the audit in accordance with the instructions of Appendix E. The reports are set out at Attachment 3 and 4 of this response.