Attachment 6.11

Other Operations and Business Support operating expenditure plan for 2014-19

May 2014

High level review

The “Other” categories forecast opex reflects the efficient costs that would be required to deliver the outcomes required by the National Electricity Rules. It also reasonably reflects the prudent costs that a prudent operator would require and a realistic expectation of the demand forecast and cost inputs required to achieve these outcomes.

The purpose of this document is to provide a summary of the activities that are delivered as part of “Other” opex that has been forecast over the 2014-19 period. The majority of these activities are service based in nature and provide the framework to allow the delivery of the capital program and allow a ‘business as usual’ state to occur. The “Other” opex category is made up of the following:

- **Contact Centre** is responsible for receiving and dealing with emergency calls from customers in the event of power outages or failures, hazards and the first point of contact for National Energy Customer Framework (NECF) compliance obligations, breach identification and complaints management. A more detailed analysis of the Contact Centre function is contained in Appendix A to this document: Emergency *Contact Centre Operating Expenditure Plan.*

- **Data Operations** is broadly responsible for the capture and management of data relating to transactions for network related activities. A more detailed analysis of the Data Operations function is contained in Appendix B to this document: *Data Operations Operating Expenditure Plan.*

- **Finance** is made up of four distinct areas providing financial and commercial support to the business. These include: Financial Control, Finance Transactions and Services, Commercial & Decision Support, and PMO, Strategy & Performance. A more detailed analysis of the Finance function is contained in Appendix C to this document: *Finance Operating Expenditure Plan.*

- **Insurance** is responsible for ensuring that appropriate insurances are effected to provide adequate protection to Ausgrid’s assets and liabilities at competitive cost and with secure insurers (minimum S&P rating A-). A more detailed analysis of the Insurance function is contained in Appendix D to this document: *Insurance Opex Document.*

- **Management** is responsible for the management of Ausgrid and includes Networks NSW, the Ausgrid Office of the COO, Legal and Internal Audit. A more detailed analysis of the Management function is contained in Appendix E to this document: *Management Operating Expenditure Plan.*

- **Other Corporate Services** - detailed financial information for these areas is contained in Appendix J to this document: *Other Corporate Services Operating Expenditure*. This group consists of:

  - **Customer Investigations** is responsible for the investigation of complaints and faults involving Ausgrid's network and/or equipment.

  - **Health, Safety & Environment** is responsible for Ausgrid's delivery and ongoing management of safety and environmental programs and compliance throughout the business. These activities also involve the tracking, administration and allocation of workers compensation benefits across the organisation, developing processes to continuously improve safety and environmental performance and ensure staff are adequately protected and covered in the event of any injury.

  - **Human Resources** is an essential function needed to guide and facilitate the substantial organisation changes required under the Network Reform Program. HR is responsible for the management of major initiatives such as:

    - Negotiation of Ausgrid's Enterprise Agreement;

    - Workforce restructures and planning, including labour reduction programs, redeployment and voluntary redundancy;

    - HR Business Partnering,

    - Organisation cultural change, alignment and engagement through fair and just culture;

    - Leadership development program, leadership effectiveness measures, performance management and succession planning; and

    - Managing organisation change to achieve change objectives and efficiencies

  - **Corporate Affairs (Communications & Community Partnerships)** activities are also undertaken by Ausgrid to ensure all staff have access to relevant information, the media and community are engaged with Ausgrid and were are appropriately investing/partnering in conjunction with the community on specific projects.

  - **Network Regulation** comprises activities that are primarily related to ensuring Ausgrid practices are aligned with Regulatory requirements. The regulatory team are responsible for providing advice and assisting with the interpretation and implementation of any standards, process, pricing and legislative changes as it relates to the Regulatory framework that may affect Ausgrid's day to day operations. The regulatory team are also responsible for the development and ongoing delivery of reporting requirements to the AER.

- **Procurement, Fleet & Logistics** provide services to the business to ensure effective:

    - Contract governance and analysis of expenditure against vendors, in line with overall strategies developed by Networks NSW to support the infrastructure investment requirements and maintenance needs of a safe and reliable network.

    - Ensuring the maintenance and management of Ausgrid's fleet of vehicles in support of a safe and reliable network.

5.1 Outcomes last period

During the 2010-14 period, Ausgrid is projecting to incur $384.536 million of Other opex. Table 1 below summarises the outcomes / projections for each of the Other opex categories during this period and compares the actual / projected expenditure and allowances for each year.

Table 1:

$M (nominal)	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Contact Centre	2.665	2.937	2.975	2.968	3.088	**14.633**
Data Operations	8.690	9.744	9.039	8.862	9.221	**45.556**
Finance	15.536	12.093	16.215	14.754	15.357	**73.955**
Insurance	4,546	3,986	4,729	5,116	5,306	**23.684**
Management	8,115	10,112	15,559	27,102	28,166	**89.054**
Customer Investigations	4.124	3.484	2.810	3.265	3.391	**17.074**
Health, Safety & Environment	8.472	9.435	7.455	6.555	6.819	**38.736**
Human Resources	3.948	3.780	4.154	2.646	2.753	**17.281**
Corporate Affairs (Communication & Community Partnerships)	6.997	6.355	4.755	5.703	5.923	**29.733**
Network Regulation	6.363	5.410	7.058	5.966	6.208	**31.005**
Procurement, Fleet & Logistics	3.776	-0.347	0.719	-0.212	-0.111	**3.825**
Total "Other" Opex	73.233	66.988	75.470	82.725	86.120	**384.536**
Allowance	74.036	76.691	81.280	86.521	88.707	**407.235**
Variance to Allowance	**-0.803**	**-9.703**	**-5.810**	**-3.796**	**-2.587**	**-22.699**

2009-10 to 2012-13: Actual opex
2013-14: Projected opex

As shown in Table 1, actual Other opex of $384.536 million is forecast to be less than the allowance of $407.235 million. This represents an estimated underspend of $22.699 million in Other opex for the period.

5.2 Key circumstances for next period

During the 2014-19 period, the activities which form part of Other opex will continue to provide the necessary support and framework to allow the efficient and effective delivery of the planned capital program and help to ensure 'business as usual' state is

maintained. Further details regarding particular sub-categories are provided in the relevant appendices.

5.3 Forecast next period

During the 2014-19 period, Ausgrid is forecasting to spend $519.251 million in Other opex. Table 2 below summarises the projections for each of the Other opex categories during this period.

Table 2:

$M ($ 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Contact Centre	5.076	8.270	8.420	8.573	8.727	**39.065**
Data Operations	11.360	13.280	13.536	13.277	13.588	**65.042**
Finance	17.409	17.961	18.314	18.677	19.051	**91.412**
Insurance	6.781	6.890	7.027	7.454	7.915	**36.068**
Management	28.457	28.870	29.223	29.587	29.960	**146.098**
Other Corporate Services	26.459	27.305	28.268	29.260	30.275	**141.567**
Total "Other" Opex	**95.542**	**102.575**	**104.788**	**106.829**	**109.517**	**519.251**

This forecast also represents expenditure that is properly allocated to standard control services in accordance with the principles and policies set out in Ausgrid's cost allocation method approved by the AER on 2 May 2014.

The table below shows the split of underlying forecast operating expenditure on a comparable basis and highlighting the impacts associated with application of the CAM, loss of synergy costs associated with cessation of the TSA and growth factors over the 2014-19 regulatory period.

Table 3:

$M ($ 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Contact Centre	3.122	3.164	3.222	3.280	3.339	**16.127**
Data Operations	9.321	9.451	9.628	9.808	9.992	**48.200**
Finance	15.512	15.731	16.039	16.358	16.685	**80.325**
Insurance	6.692	6.737	6.873	7.300	7.761	**35.363**
Management	28.346	28.595	28.945	29.306	29.675	**144.867**
Other Corporate Services	25.463	26.122	27.044	27.992	28.963	**135.584**
Other Opex before impact of TSA, CAM & other growth factors	**88.456**	**89.799**	**91.751**	**94.044**	**96.416**	**460.465**
TSA Impact[1]	4.562	9.646	9.834	10.026	10.220	**44.287**
CAM Impact[2]	2.222	2.325	2.382	2.439	2.499	**11.867**
Other growth factors	0.302	0.806	0.822	0.320	0.383	**2.632**
Total Other Opex	**95.542**	**102.575**	**104.788**	**106.829**	**109.517**	**519.251**

[1] See Section 6.3 of Ausgrid's regulatory proposal
[2] See Section 6.3 of Ausgrid's regulatory proposal

5.4 Meeting opex criteria

The total forecast Other opex expenditure of $519.251 million is efficient and prudent in achieving the operating expenditure objectives specified in the National Electricity Rules. This can be demonstrated by showing that the strategy of initiatives carried out over the last regulatory period have contributed to an overall improvement in Ausgrid's performance. Further details regarding particular sub-categories are provided in the relevant appendices.

Appendix A: Emergency Contact Centre operating expenditure plan for the 2014-19 Period

High level review

The forecast opex is subject to the following variables:

- Cessation of the Transitional Services Agreement with EnergyAustralia for the delivery of Retail related services following the sale of the Retail business in March 2011, assumed to be 27 November 2014; &
- Subsequent loss of synergies associated with the separation of the Network and Retail businesses and subsequent establishment of a Network-only Contact Centre post cessation of the TSA.

The forecast opex reflects the estimated efficient costs that Ausgrid will require to deliver the operating expenditure objectives. It also reasonably reflects the costs that a prudent operator would require based on a realistic expectation of the demand forecast and cost inputs required to achieve these outcomes.

A.1 Outcomes last period

During the 2009-14 period, Ausgrid is projecting to incur $14.633 million of opex in relation to Emergency Contact Centre as shown in the below table:

$M (nominal)	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Operating expenditure	2.665	2.937	2.975	2.968	3.088	**14.633**
Allowance	4.155	4.294	4.489	4.646	4.762	**22.346**
Variance to Allowance	-1.490	-1.357	-1.514	-1.678	-1.674	**-7.713**

During the 2009-14 period, opex for this category is estimated to have underspent the allowance by $7.7 million. The main driver for this variance is due to efficiency savings, lower than expected call volumes and the overflow of Network calls being managed by the Retail Contact Centre that are effectively managed at a marginal cost incurrence to the Network business.

Calls and associated costs are identified utilising call routing technology that enables accurate allocation of those calls between network services and retail services. In addition to this, other key reasons for the variations are attributable to the realisation of productivity savings associated with the investment in IT technologies including Avalanche. Avalanche launched in January of 2012 and provided key benefits through automation and increased quality and accuracy of outage information provided direct to customers without the need to speak to a live operator.

The below analysis includes the total number of calls, i.e. calls handled by a human operator plus the calls handled automatically, either via POMS (Power Outage Management System) or Avalanche that replaced POMS.

- In the 18 months to December 2011:
  - A total of 549,626 calls were handled by live operators AND call technology
  - A total of 183,703 customer calls were handled via the old technology (POMS, Power Outage Management System). A monthly average of 10,205

- Automated calls represented 33.4% of total calls handled
- A total of 365,923 customer calls were handled by a live operator (66.6% of total calls handled)

- Avalanche launched January 2012

- In the 18 months from January 2012 to June 2013
  - A total of 987,838 calls were handled by live operators AND call technology
  - A total of 676,997 customer calls were handled via Avalanche. A monthly average of 37,610
  - Automated calls represented 68.5% of total calls handled
  - A total of 310,841 customer calls were handled by a live operator (31.4% of total calls handled)

- In the period January 2012 to June 2013, Avalanche facilitated:
  - A 79.8% in total calls handled (Live operator and Automated)
  - A 271% increase in calls handled via automated technology
  - A 15% reduction in calls handled by a live operator
  - 43% of live operator calls were handled by Retail staff during FY13

A.2 Key circumstances for next period

For the 2014-19 period it is anticipated that the Transitional Service Agreement (TSA) with EnergyAustralia will cease in November 2014. This remains subject to Ausgrid receiving six months formal written notice from EnergyAustralia in accordance with the terms and conditions of the TSA. As a result Ausgrid will no longer have the benefit of utilising the excess overflow capacity of the TSA contact centre.

Consequently, to ensure that the emergency contact centre is adequately resourced to meet the demands of emergency peak capacity levels post the cessation of the TSA, Ausgrid has forecast a headcount requirement to support the network business with a Network stand-alone contact centre of circa ~60 FTEs, with support provided from other parts of the business to assist with call peaks during avalanche situations. This will ensure that Ausgrid can adequately deliver on it STPIS Targets, noting that the final actual FTE requirements will be confirmed post the TSA transition and upon a better understanding of the Network only business requirements

A.3 Forecast next period

For the 2014-19 period, we forecast to spend $16.127 million of underlying operating expenditure on a comparable basis of current operations. The impact of the completion of the Transitional Services Agreement results in an additional $22.938 million in expenditure bringing the total forecast operating expenditure requirement over the 2014/19 period to adequately undertake Contact Centre operations of $39.065 million. The additional costs are associated with maintaining call handling capability in a stand alone environment, with the current synergistic benefits of being an integrated Network / Retail business loss upon cessation of the TSA with EnergyAustralia. The current state consists of 15 FTE within the Emergency Team covering 16 hours per day, 7 days per week. All management and support functions are leveraged from delivery of the current Retail business activities with more than 40% of network calls overflow to the Retail business. Expected TSA end date is November 27th, 2014.

Coinciding with TSA completion, FTE will increase to 60 inclusive of the existing 15 FTE maintaining a 16x7 coverage. The expansion in resources includes Management and Support FTE, additional Customer Service Representatives (CSR) resources to respond to the current volumes that are handled by Retail CSRs plus establishing General Enquiries capability to meet NECF obligations.

$M ($ 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Underlying 'business as usual' Opex	3.122	3.164	3.222	3.280	3.339	**16.127**
Loss of TSA Impact*	1.954	5.105	5.198	5.293	5.388	**22.938**
Total	**5.076**	**8.270**	**8.420**	**8.573**	**8.727**	**39.065**

Our forecast operating expenses of $39.065 million is required to achieve the following objectives:-

- Network outage and hazard response capability.
- First point of contact for NECF compliance obligations; breach identification, complaints management.
- Public Safety and Customer service deliverables.

This will be achieved through the delivery of the following strategies which underpin the forecast provided above:

- 16/7 Contact Centres

- Development and inculcation of a Network stand-alone Contact Centre post cessation of the TSA with EnergyAustralia, assumed to be 27 November 2014.

This forecast also represents expenditure that is properly allocated to standard control services in accordance with the principles and policies set out in Ausgrid's cost allocation method approved by the AER on 2 May 2014.

A.4 Meeting Opex Criteria

Our forecast operating expenditure of $39.065 million is efficient and prudent in achieving the objections of our Standard Control Services and considers the impact of cessation of the TSA with EnergyAustralia and delivery of Retail services as at the end of November 2014. This can be demonstrated by:

- The utilisation of the 2013-14 outcomes as the basis for our forecast which builds in efficiencies achieved against the prior period allowance.
- Continuation of productivity & efficiency gains provided by Avalanche as described in A.1
- Forecast impacts associated with the deliver of a network stand-alone Contact Centre subsequent to the cessation of the TSA with EnergyAustralia.

Appendix B: Data Operations operating expenditure plan for the 2014-19 period

High level review

Our forecast opex reflects the efficient costs that we would require to deliver the outcomes we are required to deliver by the National Electricity Rules. It also reasonably reflects the prudent costs that a prudent operator would require based on a realistic expectation of the demand forecast and cost inputs required to achieve these outcomes.

B.1 Outcomes last period

During the 2009-14 period, Ausgrid is projecting to incur $45.556 million of opex in relation to Data Operations as shown in the below table:

$M (nominal)	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Operating expenditure	8.690	9.744	9.039	8.862	9.221	**45.556**
Allowance	8.099	8.433	8.746	8.985	9.139	**43.402**
Variance to Allowance	0.591	1.311	0.293	(0.123)	0.083	**2.155**

For the 2009-14 period operational expense for this category is estimated to have exceeded the allowance by $2.155m. The main driver for this variance was the increasing volume of tier 2 customers, (from 477,402 customers in 2009-10 to 767,091 in 2012-13) driving additional volume for both Business to Business (B2B) and Network Use of System (NUOS) billing activities.

B.2 Key circumstances for next period – Rationale

Data Operations – Network Billing and B2B Transactions

At the cessation of the TSA, expected to be November 2014 the synergies that arise from the TSA will be lost. The key areas of impact will be in Billing (Network Use of System or NUoS) activities and associated B2B processes. The impacts for both areas can be summarised as a forecast 2 fold increase in processing volumes. Whilst system remedial action via the Network Billing program can alleviate some of this impact, a nexus to further IT system investment exists for this to be achieved.

The impacts on both areas are described as follows:

Billing (NUoS)

At present if a site has Energy Australia as a current retailer (current 847k), and is billed from Ausgrid's systems, a by product of the production of the Retail bill (a requirement of services delivered via the TSA with EnergyAustralia), is the automatic calculation of the associated network charges. This includes any exception handling activity that is performed prior to the triggering of the bill. At the cessation of the TSA, the need to bill the retail component will cease, meaning they will be required to be migrated to a network only tariff and the current synergistic benefit of being an integrated Network / Retail business will be lost.

This will mean significant growth in:

- Handling of Billing out-sorts (ie. exceptions) from the Network billing process. Current system configuration has a number of validation processes as appropriate to prevent inaccurate billing from occurring, ranging from simple validations of incoming meter data through to ensuring a business partner (ie. Billing ID) is in place and active.
- Correction of underlying errors affecting Network billing that have arisen from upstream processes, to include the potential incorrect assignment of tariff or a component of the tariff at the time of meter update, incorrect assignment of a meter and / or its registers.

It should be noted, the additional resource impacts are limited to the Network billing exception process as the issuance of NUoS invoices, the subsequent remittance processing, dispute handling and any subsequent corrections are already perform for all 1.657 million NMIs today and thus part of our 2012/13 base year cost base.

Based on current exception rates and using the existing number of tier 2 NMIs as a proxy to forecast the impact of likely increased billing exceptions as a result of the increased population that will arise from a base of 700,000 NMIs and be required to support the full 1.657 million NMIs, it is forecast an additional 11 FTEs will be required.

Billing & Transfers					
Task	**Current volume (per month)**	**AHT (mins)**	**FTE**	**Projected Volume**	**Revised FTE**
Transfer Exceptions	3,912	3.5	1.85	No change	1.85
Billing Exceptions	6,150	10.55	8.75	13,200	18.78
Account Reconciliations	122	20	0.33	No change	0.33
Dispute Management	1,460	10	1.97	No change	1.97
Team Leader			1		1
Total			13.90		23.93
				Net Difference	11.03

B2B

Currently, based on 700k NMIs, (an average of the past 12 months) that are held by foreign retailers, approximately 32k service orders per month are generated. Post cessation of the TSA with EnergyAustralia and based on an increase in the NMI base to 1,657k, it is forecast service orders will increase to circa 74k per month.

Notwithstanding a significant proportion of transactions are handled automatically, a direct correlation between the level of NMIs and subsequent service orders generated and manual effort required to fulfil exists as not all services orders can be allocated to the field automatically, and considerable interaction with retailers detailing with items such as cancellations exists. To support the growth of 42k service orders per month, it is forecast a further 12 staff will be required and includes the requirements arising out of the increase in customer detail notification activities that will also exist.

B2B (Inclusive of CDN Activities)					
Task	**Current volume (per month)**	**AHT (mins)**	**FTE**	**Projected Volume**	**Revised FTE**
Re-energisations	10,507	2.92	4.14	24,376	9.60
Disconnections -Non Payment & Lge Vacant	4,282	2.71	1.57	9,934	3.63
B2B Registrations	10,272	0.99	1.37	23,831	3.18
B2B Services Other (Meter Tests/Inspect)	685	5.99	0.55	1,589	1.28
Disconnections - (Small Vacant Only)	834	2.43	0.27	1,935	0.63
B2B Cancellations	1,530	3.73	0.77	3,550	1.79
Special Reads	3,195	0.95	0.41	7,412	0.90
Customer Detail Notifications	486	2.85	0.19	1,128	0.43
Retailer & field liaison / Trainer			1.00		1.00
Team Leader			1.00		1.00
Total	31,790		11.27	73,755	23.44
				Net Difference	12.17

Risks / Issues

Ausgrid does not have an ability to absorb or offset the impact of the forecast increase in Tier 1 customer activity under the existing cost structures, and potential compliance, regulatory and licence condition breaches, to include those under the National Energy Customer Framework and the National B2B service order process would likely occur in addition to current DSO obligations in relation to Network billing being significant compromised.

Data Operations – Installation Data Operations

In the previous regulatory period, Installation Data Operations (IDO) has closely managed costs despite increasing work volumes, as a result of a number of improvement initiatives. These programs of work included partial automation of metering, improvements to application forms, projects to improve communications with Accredited Service providers, system enhancements to reduce processing times, quality programs to reduce rework and the development of performance measurement and management of staff.

$M (nominal)	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Installation data operations	4.146	5.601	4.405	4.267	4.480	**22.899**
Impact of Solar Bonus Scheme		1.377				**1.377**
Total excluding Solar Bonus Scheme	**4.146**	**4.224**	**4.405**	**4.267**	**4.480**	**21.522**

Ausgrid considers IDO is currently operating at full efficiency, with further reductions in staffing levels in 2012/13 as a result of Phase 2 of Automation of metering being embedded, albeit note current forecast operating expenditure is anticipated to be impacted by:

- Increased obligations upon Ausgrid in the new regulatory environment in respect of the approval of connection applications. Additionally, a greater number of applications require load approvals (solar >5kW, >100 amps and anything linked to a substation). These loadslips are a more complex task for IDO to process than has previously been incurred. In the months prior to NECF implementation Ausgrid averaged 506 per month; this is now at an average of 793 per month, with the increased volume necessitating an increase in current staffing levels to process.
- Solar applications were expected to end with the end of the Solar Bonus Scheme, however the reduced cost of systems have resulted in a steady stream of solar applications, equating to 2 FTE on an ongoing basis (application and metering). It is anticipated approximately 21,000 approvals will be required to change to net between Jan - June 2016, and the remaining 21,000 between July and December 2016. Each of these tasks will require the processing of an application and a subsequent NOSW requiring an additional 14 FTE for the relevant period.

It should be further noted, whilst efficiencies could only be gained from significant IT Systems investment, to include improvements to the eForms portal and the potential automation of metering changes, preliminary investigations into various system enhancements that would enable this indicate a lack of adequacy of the required return for these IT System investments. Notwithstanding there may be scope for improvement to current eForms, the introduction of an electronic form for Accredited Service Providers (ASPs) has not been a successful experience to date.

Potential benefits have been offset by ongoing system issues, extremely low take up rates and significant staff intervention that has been required Data Operations to facilitate use of the eForms solution previously presented. Any further investment into eForms would need extensive scoping for any forecasted benefits to be weighed against likely take up rates from ASPs, as well as the probable volumes and complexity of exceptions generated, with the financial cost of the human intervention carefully measured.

B.3 Forecast next period

For the 2014-19 period, we forecast to spend $65.042m for this opex category.

$M (real FY 13/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Underlying Opex	9.321	9.451	9.628	9.808	9.992	**48.200**
Growth Factors	2.039	3.829	3.908	3.469	3.540	**16.786**
Total Forecast Opex	11.360	13.280	13.536	13.277	13.588	**65.042**

The following change factor costs (as outlined in section B.2) are summarised below:

Data Operations						
Summary - Additional Labour Cost Required (FY 2015 - FY 2019)						
Purpose	2014/15 Cost	2015/16 Cost	2016/17 Cost	2017/18 Cost	2018/19 Cost	Total Cost (FY15-19)
NEMS - All customers Tier 2	$1,715,258	$2,940,441	$2,940,441	$2,940,441	$2,940,441	$13,477,023
IDO - NECF & Solar	$298,368	$298,368	$298,368	$298,368	$298,368	$1,491,838
IDO - Solar Bonus Event	$0	$485,100	$485,100	$0	$0	$970,200
	$2,013,625	**$3,723,909**	**$3,723,909**	**$3,238,809**	**$3,238,809**	**$15,939,061**

B.4 Meeting opex criteria

Our forecast operating cost of $65.0m is efficient and prudent in achieving the objections of our Standard Control and Ancillary Services as outlined.

Appendix C: Finance operating expenditure plan for the 2014-19 period

High level review

This document provides an overview of Ausgrid's proposed operating expenditure to provide finance support functions to our distribution and transmission network business in the 2014-19 period. In total, Ausgrid proposes total operating expenditure of $91.4 million ($2013/14) over the period, comprised of the following operational activities:

- Financial Control
- Commercial & Decision Support
- Finance Transactions & Services
- PMO, Strategy & Performance

The total opex is provided in the table below:

$M ($ 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Operating expenditure	**17.409**	**17.961**	**18.314**	**18.677**	**19.052**	**91.412**

The focus of our strategy for the 2014-19 period is to continue to deliver the business critical functions of financial management to the Network business.

The proposed operating expenditure reflects the continuance of business as usual operations with the following step changes impacting on the forecast opex over the 2014/19 period:

- Cessation of the Transitional Services Agreement (TSA) with EnergyAustralia as at the end of November 2014, and subsequent loss of synergies associated with a single Corporate Support function in delivering both Network & Retail services; &
- The impact of the AER approved CAM upon the operations of the Finance function.

Without the impact of these two change factors the proposed forecast operating expenditure would be as per the following table:

$M ($ 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Operating expenditure excluding CAM and TSA impacts	**15.512**	**15.731**	**16.039**	**16.358**	**16.645**	**80.325**

The section below provides background on the characteristics of our functional operations, and the reasons why we are required to undertaken them to achieve the overall strategic objectives of Ausgrid.

Objectives

Ausgrid's commercial obligations are to operate as efficiently as any comparable business and maximise the net worth of the State's investment. Success against these drivers demands prudent asset investment and efficient day-to-day operational management in order to deliver improved value for money outcomes to our customers.

The objective of the Finance Strategic Plan is to 'protect financial value and deliver balanced outcomes for both customers and the shareholder'.

Scope of activities

The activities performed within the Finance function fall into 4 broad categories:

Financial Control
This encompasses management of Ausgrid's fixed assets; financial reporting; preparation of statutory and Regulatory Information Notice (RIN) accounts; management of the general ledger; managing taxation; treasury and cash management; accounting policy; and engagement of external auditors.

Finance Transactions & Services
Management of transactional based financial services such as accounts payable; billing; accounts receivable; and payroll.

Commercial & Decision Support
This function interacts directly with the business units of Ausgrid and provides analysis and decision support; business unit performance reporting; budgeting and forecasting; investment governance; gross margin accounting; management of finance systems; and support to the AER submission.

PMO, Strategy & Performance
The role of this group incorporates PMO Reporting & Governance; benefits tracking; business transformation; SCI coordination (business plans); corporate key performance indicators (KPI) development and reporting; benchmarking; and managing scorecard progress.

Requirement for activities

Finance support costs are critical to the operation of a business the size and scope of Ausgrid. Ausgrid must meet general and specific requirements under the following legislations and standards:

- State Owned Corporations Act (1989)
- Annual Report Statutory Bodies Act (1984)
- Public Finance & Audit Act (1983)
- Global Reporting Initiative (GRI) Sustainability Reporting Guidelines Version 3.0 and Electric Utility Sector Supplement.
- Energy Supply Association of Australia (ESAA) Sustainable Practice Framework
- Australian Accounting Standards (AASBs)

Operational constraints

The ongoing Network Reform Program has already resulted in the centralisation of these financial support functions, and it is to be expected that there will be continued pressure to reduce the size and expenditure of finance, whilst conversely increasing the level of effort required to implement Network Reform initiatives and support increased reporting requirements from both the AER and Networks NSW.

C. 1 Opex outcomes during the 2010-14 period

During the period, Ausgrid incurred $73.955 million of opex in relation to finance functions as shown in the below table:

$M (nominal)	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Operating expenditure	15.536	12.093	16.215	14.754	15.357	**73.955**
Allowance	16.282	16.929	17.777	18.511	19.100	**88.600**
Variance to Allowance	-0.746	-4.836	-1.562	-3.757	-3.743	**-14.645**

Variations to allowance

During the 2009-14 period opex for this category is estimated to have underspent the allowance by $14.6m. The main driver for this variance has been continued emphasis on delivering efficiencies.

Key variations in the expenditure pattern in the 2010-14 period were:

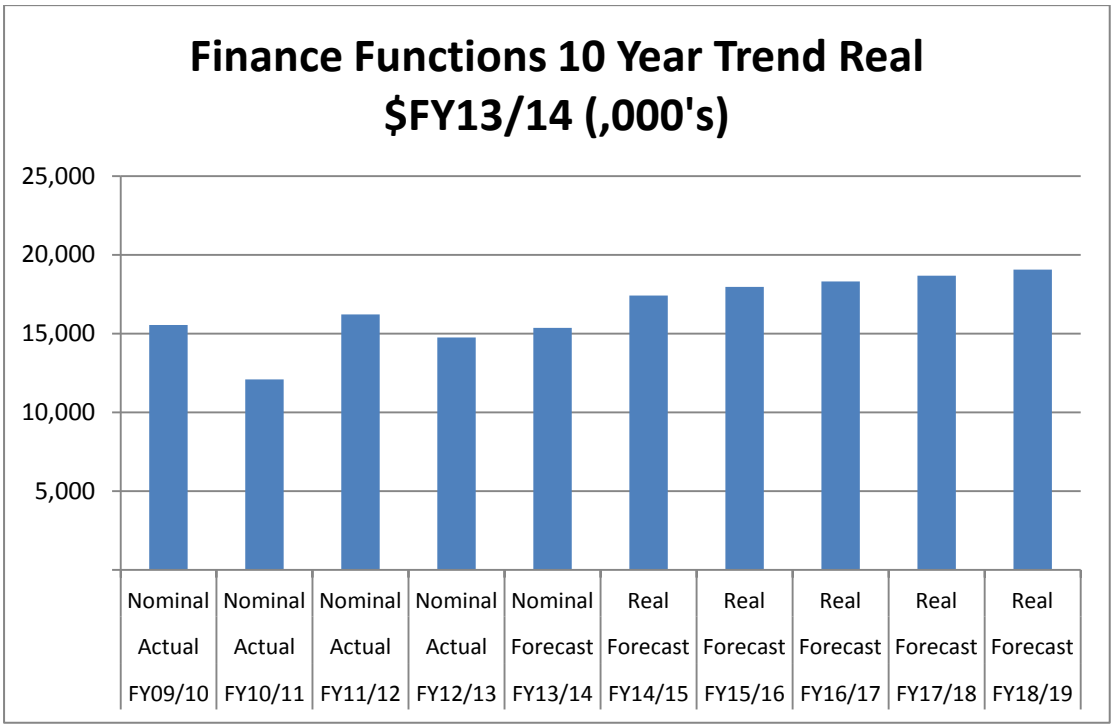
- Expenditure in 2009/10 was impacted by recognition of bad debts for the Network business related to the collapsed retailer Jack Green against the Revenue Assurance group within finance, & reflects a one-off expenditure in the 2009/10 year of circa $2.9m.
- Projected expenditure in 2013/14 also exhibits an increase due to the combined effects of the organisational restructure arising from the Network Reform Program, noting a number of previously decentralised finance activities that were not historically part of the finance function have now not only been centralised to harness the effective economies of scale of these functions but also more prudently re-aligned with the finance function.

Ausgrid's commercial obligations are to operate as efficiently as any comparable business and maximise the net worth of the State's investment. Success against these drivers demands prudent asset investment and efficient, day-to-day operational management in order to deliver improved value for money outcomes to our customers.

The objective of the Finance Strategic Plan is to 'protect financial value and deliver balanced outcomes for both customers and the shareholder'.
Ausgrid's Finance Strategic Plan is designed to deliver these outcomes by focussing on four key areas:

- Manage the AER Determination – deliver a sound regulatory proposal that continue to deliver safe and reliable electricity while at the same time take into account community concerns about affordability;
- Financial Strategy – improve investment prioritisation and debt management approach;
- Aligned Performance Outcomes – implement an aligned corporate planning architecture across Networks NSW and design a benchmarking program to drive productivity improvement
- Manage Network Reform Program – achieve Reform-related savings.

At a high level, it can be seen that the forecast for the period is an increase in opex from the 2009-14 period, driven only by underlying real cost escalators above CPI, and significant one off historical events.



The impact on the Network business due to the cessation of the TSA with EnergyAustralia and subsequent loss of synergies with no longer being an integrated Network / Retail business are also demonstrated from November 2014.

The focus of our opex strategy is to continue to support the network business and drive continual improvement throughout the business. At the same time we have sought to minimise price pressures to the full extent possible by investigating avenues of efficiency either in scope or delivery of the forecast activity or investment in infrastructure.

C.2 Key circumstances during 2014-19 period

During the 2014-19 period there are 2 key circumstances that will impact expenditure on the finance functions.

- The cessation of the Transitional Service Agreement between Ausgrid and EnergyAustralia will result in costs that have been defrayed by the terms of the arrangement with EnergyAustralia being reverted to the Ausgrid Network business. Management initiatives are planned to make savings to offset these costs, resulting in a net position of no impact on the Network Business within the upcoming period. However, given it cannot be reliably determined which functional opex categories will achieve these savings, savings have not been subsequently attributed to any specific category in the submission but rather provided for as an efficiency dividend to be delivered upon.
- The Network Reform Program will result in ongoing centralisation of finance functions. Through implementation of the new operating model for finance, there is an expectation that there will be long term benefits in terms of productivity improvements and the realisation of economies of scale due to better functional alignment of activities. As with the loss of synergy costs in respect of the TSA it cannot be reliably determined which functional opex categories will achieve these savings, and the degree to which savings will be made in each functional area. Accordingly benefits arising from NERP initiatives are not being attributed to any specific functional category within the submission but rather provided for as efficiency dividend.

Key operational drivers and variables

The delivery of financial support to the Ausgrid business is not inherently tied to drivers such as customer numbers, level of capital investment, or staff numbers.

Operational strategies

As a result of these circumstances and drivers the following strategies have been developed:

Strategic Focus	Goals	Key Initiatives
Manage the AER Determination	• Demonstrate efficiency in next period • Develop robust regulatory proposals and supporting documents • Reduce the risk inherent in the current revenue stream	• Effectively manage the AER Determination process • Develop a tariff strategy that balances customer expectations and shareholder returns
Provide Financial Strategy	• Review financing strategy • Improve investment prioritisation and evaluations	• Develop revised investment prioritisation, evaluation and reporting frameworks • Achieve material accounting policy harmonisation where it makes sense • Develop a recommended capital structure and debt management approach for the next regulatory period
Align Performance Outcomes	• Align corporate objectives with individual's objectives • Design benchmarking program to drive productivity	• Roll out the new performance management scheme • Undertake benchmark analysis to support the AER Determination • Develop a 'cost to serve' metric
Manage Network Reform Program	• Develop and implement a single investment Governance Framework	• Provide disciplined program governance and reporting frameworks to ensure reform success • Provide change management support tools – to help staff transition the culture from internally-focused to a more customer-centric cost-conscious culture

Relationship with capex program

Operational expenditure for Finance is not linked to the proposed capital program.

Change factor between periods (if applicable)

The only change factors in the Finance Function are due to structural changes through Network Reform and the conclusion of the TSA with EnergyAustralia assumed to occur at the end of November 2014. These have been described above.

The change to organisational structures has resulted in a $1.5M step between the 2012/13 base year and 2013/14 forecast and will continue throughout the regulatory period.

The loss of synergy costs associated with the cessation of the TSA result in a step of $0.4M into 2014/15 and a further $0.3M into 2015/16. These costs are unavoidable costs which will continue to be incurred by Ausgrid beyond the point in time where the costs are funded by an external party and will therefore devolve to the Network Business.

Productivity savings

Productivity savings are anticipated to be achieved through the implementation of NERP savings. As it cannot be reliably determined which functional opex categories will achieve these savings, and the degree to which savings will be made in each functional area. Accordingly benefits arising from NERP initiatives are not being attributed to any specific category within the submission.

C. 3 Forecasting method

The purpose of this section is to provide an overview of the process we have used to derive the total opex forecast for Finance Functions. In doing so, we have taken into account the business as usual operations carried forward from the 2010-14 period and the circumstances in the 2014-19 period as described above.

General approach

Ausgrid has developed a separate plan for Finance Function activities. The plan has relied on a high level model rather than detailed bottom up forecasting. The forecasting method across the plans is based on robust assumptions. Synergies with other plans such as NERP initiatives are considered and are accounted for at a high level (separate to the specifics of the finance function). The impact of material step changes has also been incorporated in the forecast.

A summary of our general method is set out below, with further information provided in supporting information that sets out the models in more detail.

Model approach

Ausgrid's BAU Finance Functions forecast has been developed following a base year approach. This approach as taken 2012/13 as a base year performance and applied real and nominal escalation factors.

Key assumptions

Our forecast methods are based on consistent and robust assumptions of the future. The key assumptions include:

- that for business as usual expenditure there will only be an increase by real escalators (or provided by an independent third party).
- that there will be significant impact on the finance expenditure due to the cessation of the TSA and the

Impact of capital investment

No impact of capital investment has been accounted for within the Finance Function. There is no perceived impact on the operational expenditure within this functional area arising from the proposed capital works program.

Impact of step changes

As a consequence of the circumstances resulting in a step change in underlying business operations, a bottom up approach has been adopted in calculating the incremental costs.

C. 4 Summary of opex

In total, the opex for Finance Functions related expenditure is $91.4M ($ real FY13/14).

$M (real 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Labour	11.175	11.547	11.786	12.028	12.273	**58.809**
Materials	0.866	0.881	0.881	0.881	0.881	**4.391**
Contracted Services	3.288	3.380	3.437	3.497	3.560	**17.162**
Labour Hire	3.351	3.445	3.503	3.564	3.629	**17.491**
Other	-1.271	-1.293	-1.293	-1.293	-1.293	**-6.441**
Total	**17.409**	**17.961**	**18.314**	**18.677**	**19.051**	**91.412**

This is split between Transmission and Distribution opex as follows:

$M (real 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Transmission	1.099	1.134	1.157	1.180	1.203	**5.773**
Distribution	16.309	16.827	17.157	17.498	17.848	**85.638**
Total	**17.409**	**17.961**	**18.314**	**18.677**	**19.051**	**91.412**

Appendix D: Insurance operating expenditure plan for the 2014-19 period

High level review

Our forecast opex reflects the efficient costs that we would require to deliver the outcomes we are required to deliver by the National Electricity Rules. It also reasonably reflects the prudent costs that a prudent operator would require, and a realistic expectation of the demand forecast and cost inputs required to achieve these outcomes.

D.1 Outcomes last period

During the 2009-14 period, Ausgrid is projecting to incur $23.950 million of opex in relation to Insurance as shown in the below table:

$M (nominal)	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Operating expenditure	4.546	3.986	4.729	5.117	5.572	**23.950**
Allowance	6.184	6.280	6.474	6.637	6.756	**32.331**
Variance to Allowance	-1.638	-2.294	-1.745	-1.520	-1.184	**-8.381**

During the 2010-14 period opex for this category is estimated to have underspent the allowance by $8.381 million. The main driver for this variance was the difficulty in estimating the cyclical insurance market which did not harden as much as expected especially in relation to bushfire liability insurance for our risks. In addition to this other key reasons for the variations were:

- Relatively good claims experience for the 5 year period
- Successful "selling " of our risks to the global insurance market
- Consolidation of some insurance policies following the industry restructure (will impact 2013-14 actual)

D.2 Key circumstances for next period

During the 2014-19 period assets under construction will come on stream eg City East cable tunnel which will increase the replacement values used by insurers to calculate their property insurance premiums in addition to CPI. Bushfire risk continues as a major issue for global insurers and could lead to significantly increased premiums.

D.3 Forecast next period

During the 2014/19 period, we forecast to spend $36.068 million for this opex category.

$M (real 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Operating expenditure	6.781	6.890	7.027	7.454	7.915	**36.068**

Our forecast operating of $36.068 million is required to achieve objective/s to ensure appropriate insurances are affected to provide adequate protection to Ausgrid assets and liabilities at competitive cost and with secure insurers (minimum S & P rating A-).

This will be achieved through the delivery of the following strategies which underpin the forecast provided above:

- Advice from our brokers
- Forward planning of all insurance renewals
- “Selling” our risks to the global insurance market
- Managing key insurer relationships
- Ensuring we have robust risk management programs in place (Bow tie process)
- Maintaining a good claims experience and robust management of any claims

This forecast also represent expenditure that is properly allocated to standard control services in accordance with the principles and policies set out in Ausgrid’s cost allocation method approved by the AER on 1 May 2014.

D.4 Meeting opex criteria

Our forecast operating expenditure of $36.068 million is efficient and prudent in achieving the objections of our Standard Control Services. This can be demonstrated by:

- Ernst and Young - “Regulatory Treatment of Risk” report provided at Attachment 4.12
- Ausgrid’s brokers, Aon and Marsh, regularly test the insurance market to ensure optimal terms as well as provide benchmark advice. Recent broker renewal reports are available.

Appendix E: Management operating expenditure plan for the 2014-19 period

High level review

This document provides an overview of Ausgrid's proposed operating expenditure to provide executive management support functions to our distribution and transmission network business in the 2014-19 period. In total, Ausgrid proposes total operating expenditure of $146.1 million ($2013/14) over the period, comprised of the following operational activities:

- Networks NSW
- Office of the COO for Ausgrid
- Legal Services / General Counsel
- Internal Audit

The total opex is provided in the table below:

$M ($ 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Operating expenditure	28.457	28.870	29.223	29.587	29.960	146.098

The focus of our strategy for the 2014-19 period is to continue to provide strategic direction and manage both legal risk and compliance issues as they relate to the delivery of a safe and reliable network.

The proposed operating expenditure reflects the continuance of business as usual operations with the following step changes impacting on the forecast opex over the 2014/19 period:

- Cessation of the Transitional Services Agreement (TSA) with EnergyAustralia as at the end of November 2014, and subsequent loss of synergies associated with a single Corporate Support function in delivering both Network & Retail services; &
- The impact of the AER approved CAM upon the operations of the Management function.

Without the impact of these two change factors the proposed forecast operating expenditure would be as per the following table:

$M ($ 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Operating expenditure excluding CAM and TSA impacts	28.346	28.595	28.945	29.305	29.675	144.867

The section below provides background on the characteristics of our functional operations, and the reasons why we are required to undertaken them to achieve the overall strategic objectives of Ausgrid.

Objectives

Ausgrid's commercial obligations are to operate as efficiently as any comparable business and maximise the net worth of the State's investment. Success against these drivers demands prudent asset investment and efficient day-to-day operational management in order to deliver improved value for money outcomes to our customers.

The objective of the Finance Strategic Plan is to 'protect financial value and deliver balanced outcomes for both customers and the shareholder'.

Scope of activities

The activities performed within the Management function fall into 4 broad categories:

Network NSW
On 1 July 2012, the Networks NSW (NNSW) operating model commenced with Endeavour Energy, Ausgrid and Essential Energy (DNSPs) having separate Boards with common Directors, a common Chairman and common Chief Executive Officer (CEO). A Group Management structure has been implemented to assist the Board and the CEO in undertaking reform of the industry consistent with the objectives of NSW Government policy and in line with the Umbrella Cooperation Agreement (UCA).

Subsequent to 30 June 2013 the Energy Services Corporations Amendment (Distributor Efficiency) Legislation was passed. The amendment legislation provides for the appointment of a single board of directors that is to be the board of each of the energy distributors (Ausgrid, Endeavour Energy and Essential Energy) to act in the best interests of energy distributors as if they formed part of a combined operation. The legislation was proclaimed on 27 August 2013.

NNSW is not a legal entity and the personnel and associated costs of the NNSW group management have been captured by the individual DNSPs and equitably shared between the three DNSPs. The Umbrella Cooperation Agreement facilitates the management and cooperation of NNSW and each of the DNSPs. It enables the DNSPs to identify and implement reform measures and realise and share the initiatives through acting collectively and co-operatively.

Essentially NNSW is responsible for assisting the Board and CEO in undertaking reform of the industry consistent with the objectives of the NSW Government and in line with the Umbrella Cooperation Agreement (UCA)

Office of the COO for Ausgrid
The Office of the Chief Operating Officer for Ausgrid is responsible for leading Ausgrid's operations and the implementation and subsequent operationalising of initiatives as they impact on the operations of Ausgrid in the delivery of a safe & reliable network.

Legal Services / General Counsel
This function interacts directly with the business areas of Ausgrid pertaining to legal matters and the provision of legal advice, in addition to oversight of specific legislative matters (ie. GIPA) and subsequent implementation throughout the broader Ausgrid business as required.

Internal Audit
The role of this group is to provide the Ausgrid Executive, NNSW and Board, in addition to Ausgrid Business areas an independent internal audit function encompassing specific matters of compliance and policy adherence with respect to business deliverables.

E. 1 Outcome last period

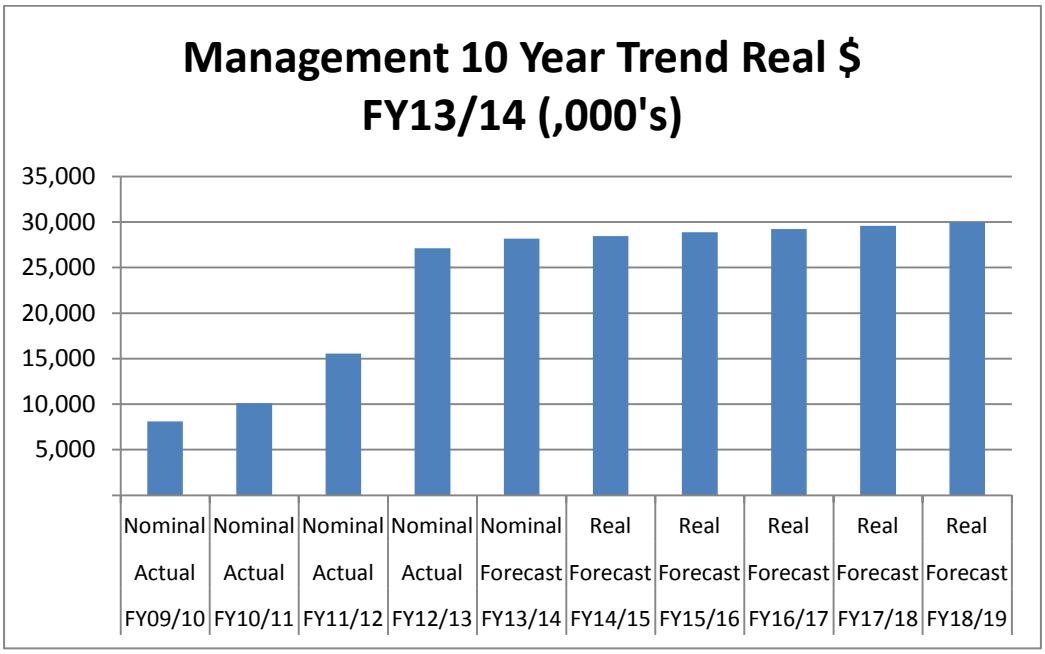
During the period, Ausgrid incurred $89.054 million of opex in relation to Management functions as shown in the below table:

$M (nominal)	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Operating expenditure	8.115	10.112	15.559	27.102	28.166	**89.054**
Allowance	9.926	10.234	10.671	11.049	11.346	**53.226**
Variance to Allowance	-1.812	-0.122	4.888	16.053	16.821	**35.828**

Variations to allowance

During the 2010-14 period opex for this category is estimated to have overspent the allowance by $35.8m. The main driver for this variance has been the introduction of Networks NSW which has obviously increased these costs significantly, whilst reducing the overall costs of the Ausgrid business.

Ausgrid's commercial obligations are to operate as efficiently as any comparable business and maximise the net worth of the State's investment. Success against these drivers demands prudent asset investment and efficient, day-to-day operational management in order to deliver improved value for money outcomes to our customers.



The impact on the Network business due to the cessation of the TSA with EnergyAustralia and subsequent loss of synergies with no longer being an integrated Network / Retail business are also demonstrated from November 2014.

The focus of our opex strategy is to continue to support the network business and drive continual improvement throughout the business. At the same time we have sought to minimise price pressures to the full extent possible by investigating avenues of efficiency either in scope or delivery of the forecast activity or investment in infrastructure.

E.2 Key circumstances during 2014-19 period

During the 2014-19 period there are 2 key circumstances that will impact expenditure on the Management functions.

- The cessation of the Transitional Service Agreement between Ausgrid and EnergyAustralia will result in costs that have been defrayed by the terms of the arrangement with EnergyAustralia being reverted to the Ausgrid Network business. Management initiatives are planned to make savings to offset these costs, resulting in a net position of no impact on the Network Business within the upcoming period. However, given it cannot be reliably determined which functional opex categories will achieve these savings, savings have not been subsequently attributed to any specific category in the submission but rather provided for as an efficiency dividend to be delivered upon.
- The Network Reform Program will result in ongoing centralisation of specific functions. Through implementation of the new operating models, there is an expectation that there will be long term benefits in terms of productivity improvements and the realisation of economies of scale due to better functional alignment of activities. As with the loss of synergy costs in respect of the TSA it cannot be reliably determined

which functional opex categories will achieve these savings, and the degree to which savings will be made in each functional area. Accordingly benefits arising from NERP initiatives are not being attributed to any specific functional category within the submission but rather provided for as efficiency dividend.

Key operational drivers and variables

The delivery of Management support to the Ausgrid business is not inherently tied to drivers such as customer numbers, level of capital investment, or staff numbers.

Operational strategies

As a result of these circumstances and drivers the following strategies have been developed:

Strategic Focus	Goals	Key Initiatives
Manage the AER Determination	• Demonstrate efficiency in next period • Develop robust regulatory proposals and supporting documents • Reduce the risk inherent in the current revenue stream	• Effectively manage the AER Determination process • Develop a tariff strategy that balances customer expectations and shareholder returns
Align Performance Outcomes	• Align corporate objectives with individual's objectives • Design benchmarking program to drive productivity	• Roll out the new performance management scheme • Undertake benchmark analysis to support the AER Determination • Develop a 'cost to serve' metric
Manage Network Reform Program	• Develop and implement a single investment Governance Framework	• Provide disciplined program governance and reporting frameworks to ensure reform success • Provide change management support tools – to help staff transition the culture from internally-focused to a more customer-centric cost-conscious culture

Relationship with capex program

Operational expenditure for Management is not linked to the proposed capital program.

Change factor between periods (if applicable)

The only change factors in the Management function are due to structural changes through Network Reform and the conclusion of the TSA with EnergyAustralia assumed to occur at the end of November 2014. These have been described above.

The loss of synergy costs associated with the cessation of the TSA result in a step of $0.1M into 2014/15 and a further $0.3M into 2015/16. These costs are unavoidable costs which will continue to be incurred by Ausgrid beyond the point in time where the costs are funded by an external party and will therefore devolve to the Network Business.

Productivity savings

Productivity savings are anticipated to be achieved through the implementation of NERP savings. As it cannot be reliably determined which functional opex categories will achieve these savings, and the degree to which savings will be made in each functional area. Accordingly benefits arising from NERP initiatives are not being attributed to any specific category within the submission.

E. 3 Forecasting method. The purpose of this section is to provide an overview of the process we have used to derive the total opex forecast for Management functions. In doing so, we have taken into account the business as usual operations carried forward from the 2010-14 period and the circumstances in the 2015-19 period as described above.

General approach

Ausgrid has developed a separate plan for Management Function activities. The plan has relied on a high level model rather than detailed bottom up forecasting. The forecasting method across the plans is based on robust assumptions. Synergies with other plans such as NERP initiatives are considered and are accounted for at a high level (separate to the specifics of the finance function). The impact of material step changes has also been incorporated in the forecast.

A summary of our general method is set out below, with further information provided in supporting information that sets out the models in more detail.

Model approach

Ausgrid's BAU Management Functions forecast has been developed following a base year approach. This approach as taken 2012/13 as a base year performance and applied real and nominal escalation factors.

Key assumptions

Our forecast methods are based on consistent and robust assumptions of the future. The key assumptions include:

- that for business as usual expenditure there will only be an increase by real escalators (or provided by an independent third party).
- that there will be significant impact on the Management Support function due to the cessation of the TSA and the

Impact of capital investment

No impact of capital investment has been accounted for within the Management Function. There is no perceived impact on the operational expenditure within this functional area arising from the proposed capital works program.

Impact of step changes

As a consequence of the circumstances resulting in a step change in underlying business operations, a bottom up approach has been adopted in calculating the incremental costs.

E. 4 Summary of opex

In total, the opex for Management Functions related expenditure is $146.098M ($ real FY13/14).

$M (real 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Labour	11.960	12.216	12.469	12.725	12.984	**62.354**
Materials	0.036	0.037	0.037	0.037	0.037	**0.183**
Contracted Services	2.766	2.811	2.858	2.908	2.961	**14.302**
Labour Hire	3.192	3.244	3.298	3.356	3.417	**16.506**

Other	10.503	10.563	10.563	10.563	10.563	**52.754**
Total	**28.457**	**28.870**	**29.223**	**29.587**	**29.960**	**146.098**

This is split between Transmission and Distribution opex as follows:

$M (real 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Transmission	1.750	1.775	1.797	1.820	1.843	**8.985**
Distribution	26.707	27.094	27.426	27.768	28.118	**137.113**
Total	**28.457**	**28.870**	**29.223**	**29.587**	**29.960**	**146.098**

Appendix F: Other Support Services operating expenditure plan for the 2014-19 regulatory period

High level review

The Other Support Services categories forecast opex reflect the efficient costs that would be required to deliver the outcomes required by the National Electricity Rules. It also reasonably reflects the prudent costs that a prudent operator would require and a realistic expectation of the demand forecast and cost inputs required to achieve these outcomes.

The purpose of this document is to provide a summary of the activities that are delivered as part of Other Corporate Services opex that has been forecast over the 2014-19 period. The majority of these activities are service based in nature and provide the framework to allow the delivery of the capital program and allow a 'business as usual' state to occur. The Other Corporate Services opex group is made up of the following:

- **Customer Investigations** is responsible for the investigation of complaints and faults involving Ausgrid's network and/or equipment.
- **Health, Safety & Environment** is responsible for Ausgrid's delivery and ongoing management of safety and environmental programs and compliance throughout the business. These activities also involve the tracking, administration and allocation of workers compensation benefits across the organisation, developing processes to continuously improve safety and environmental performance and ensure staff are adequately protected and covered in the event of any injury. Further information can be found in supporting documents chapter 6 with identifiers 'ID00270, ID00271,ID00272 and ID00273'
- **Human Resources** is an essential function needed to guide and facilitate the substantial organisation changes required under the Network Reform Program. HR is responsible for the management of major initiatives such as:

  - Negotiation of Ausgrid's Enterprise Agreement;
  - Workforce restructures and planning, including labour reduction programs, redeployment and voluntary redundancy;
  - HR Business Partnering,
  - Organisation cultural change, alignment and engagement through fair and just culture;
  - Leadership development program, leadership effectiveness measures, performance management and succession planning; and
  - Managing organisation change to achieve change objectives and efficiencies

Further information can be found in supporting document to chapter 6 with identifier 'ID00274'

- **Corporate Affairs (Communications & Community Partnerships)** activities are also undertaken by Ausgrid to ensure all staff have access to relevant information, the media and community are engaged with Ausgrid and we are appropriately investing/partnering in conjunction with the community on specific projects. Further information can be found in supporting document to chapter 6 with identifier 'ID00275'
- **Network Regulation** comprises activities that are primarily related to ensuring Ausgrid practices are aligned with Regulatory requirements. The regulatory team are responsible for providing advice and assisting with the interpretation and implementation of any standards, process, pricing and legislative changes as it relates to the Regulatory framework that may affect Ausgrid's day to day operations. The regulatory team are also responsible for the development and ongoing delivery of reporting requirements to the AER.
- **Procurement, Fleet & Logistics** provide services to the business to ensure effective:

- Contract governance and analysis of expenditure against vendors, in line with overall strategies developed by Networks NSW to support the infrastructure investment requirements and maintenance needs of a safe and reliable network.

- ensuring the maintenance and management of Ausgrid's fleet of vehicles in support of a safe and reliable network.

- Costs are apportioned to the network business in line with Ausgrid's approved Cost Allocation Methodology.

F.1 Outcomes last period

During the 2009-14 period, Ausgrid is projecting to incur $137.654 million of Other opex. Table 1 summarises the outcomes / projections for each of the Other Support Services categories during this period and compares the actual / projected expenditure and allowances for each year.

Table 1:

$M (Nominal)	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Customer Investigations	4.124	3.484	2.810	3.265	3.391	**17.074**
Health, Safety & Environment	8.472	9.435	7.455	6.555	6.819	**38.736**
Human Resources	3.948	3.780	4.154	2.646	2.753	**17.281**
Corporate Affairs (Communication & Community Partnerships)	6.997	6.355	4.755	5.703	5.923	**29.733**
Network Regulation	6.363	5.410	7.058	5.966	6.208	**31.005**
Procurement, Fleet & Logistics	3.776	-0.347	0.719	-0.212	-0.111	**3.825**
Total Other Corporate Services Opex	**33.680**	**28.117**	**26.951**	**23.923**	**24.983**	**137.654**
Allowance	29.388	30.520	33.123	36.692	37.605	**167.328**
Variance to Allowance	**4.292**	**-2.403**	**-6.172**	**-12.769**	**-12.622**	**-29.675**

2009-10 to 2012-13: Actual opex
2013-14: Projected opex

As shown in Table 1, actual Other opex of $137.654 million is forecast to be less than the allowance of $167.328 million. This represents an estimated underspend of $29.674 million in Other opex for the period.

F.2 Key circumstances for next period

During the 2014-19 period, the activities which form part of Other opex will continue to provide the necessary framework and support to allow the efficient and effective delivery of the planned capital program and help to ensure the current 'business as usual' state is maintained.

F.3 Forecast next period

During the 2014-19 period, Ausgrid is forecasting to spend $141.567 million in Other opex. Table 2 summarises the projections for each of the Other opex categories during this period.

Table 2:

$M (real 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Customer Investigations	3.409	3.432	3.464	3.496	3.528	**17.329**
Health, Safety & Environment	6.877	6.959	7.075	7.196	7.320	**35.427**
Human Resources	2.781	2.818	2.870	2.924	2.979	**14.371**
Corporate Affairs (Communication & Community Partnerships)	5.954	5.995	6.052	6.110	6.169	**30.280**
Network Regulation	6.266	6.347	6.460	6.577	6.696	**32.346**
Procurement, Fleet & Logistics	0.176	0.570	1.122	1.690	2.272	**5.831**
Total Other Corporate Services Opex Before Impact of CAM changes and TSA loss of Synergies	**25.463**	**26.122**	**27,044**	**27,992**	**28,963**	**135.584**
CAM change impact	0.775	0.795	0.823	0.852	0.882	**4.127**
TSA Loss of synergy impact	0.220	0.388	0.402	0.416	0.430	**1.856**
Total Other Corporate Services Opex	**26.459**	**27.305**	**28.269**	**29.260**	**30.275**	**141.567**

This forecast also represent expenditure that is properly allocated to standard control services in accordance with the principles and policies set out in Ausgrid's cost allocation method approved by the AER on 2 May 2014.

Tables 3 to 8 further segment the forecasted outcomes of the Other Corporate Services opex activities into 5 different cost categories.

Customer Investigations ***Table 3:***

$M (real 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Labour	1.452	1.475	1.505	1.536	1.567	7.535
Labour Hire	0.001	0.001	0.001	0.001	0.001	0.005
Contracted Services	0.050	0.051	0.052	0.053	0.054	0.260

Material	0.001	0.001	0.001	0.001	0.001	0.005
Other	1.905	1.905	1.905	1.905	1.905	9.525
Total	**3.409**	**3.432**	**3.464**	**3.496**	**3.528**	**17.329**

Health, Safety & Environment ***Table 4:***

$M (real 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Labour	3.544	3.599	3.673	3.749	3.825	18.390
Labour Hire	1.983	2.004	2.037	2.073	2.111	10.208
Contracted Services	0.534	0.540	0.549	0.558	0.568	2.749
Material	0.055	0.055	0.055	0.055	0.055	0.275
Other	0.761	0.761	0.761	0.761	0.761	3.805
Total	**6.877**	**6.959**	**7.075**	**7.196**	**7.320**	**35.427**

Human Resources ***Table 5:***

$M (real 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Labour	1.877	1.906	1.945	1.985	2.026	9.739
Labour Hire	0.553	0.559	0.569	0.578	0.589	2.848
Contracted Services	0.206	0.208	0.211	0.215	0.219	1.059
Material	0.002	0.002	0.002	0.002	0.002	0.010
Other	0.143	0.143	0.143	0.143	0.143	0.715
Total	**2.781**	**2.818**	**2.870**	**2.924**	**2.979**	**14.371**

Corporate Affairs (Communication & Community Partnerships ***Table 6:***

$M (real 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Labour	2.315	2.351	2.400	2.449	2.499	12.014
Labour Hire	0.305	0.309	0.314	0.319	0.325	1.572
Contracted Services	0.164	0.166	0.169	0.171	0.175	0.845
Material	-0.063	-0.063	-0.063-	0.063-	0.063	-0.315
Other	3.233	3.233	3.233	3.233	3.233	16.165
Total	**5.954**	**5.995**	**6.052**	**6.110**	**6.169**	**30.280**

Network Regulation ***Table 7:***

$M (real 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Labour	3.937	3.999	4.082	4.165	4.250	20.433
Labour Hire	0.297	0.300	0.305	0.310	0.316	1.528
Contracted Services	1.518	1.534	1.560	1.587	1.616	7.815
Material	-	-	-	-	-	-
Other	0.514	0.514	0.514	0.514	0.514	2.570
Total	**6.266**	**6.347**	**6.460**	**6.577**	**6.696**	**32.346**

Procurement, Fleet & Logistics ***Table 8:***

$M (real 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Labour	19.417	19.720	20.128	20.541	20.960	100.766
Labour Hire	3.623	3.661	3.722	3.787	3.856	18.649
Contracted Services	4.949	5.001	5.085	5.174	5.268	25.477
Material	1.691	1.691	1.691	1.691	1.691	8.455
Other	-29.503	-29.503	-29.503	-29.503	-29.503	-147.515
Total	**0.176**	**0.570**	**1.122**	**1.690**	**2.272**	**5.831**

F.4 Meeting opex criteria

The total forecast Other opex expenditure of $141.567 million is efficient and prudent in achieving the objections of our Standard Control Services. This can be demonstrated by showing that the strategy of initiatives carried out over the last regulatory period have contributed to an overall improvement in Ausgrid's performance

F.5 CAM Impact on Other categories

Table 9 shows the impact of the proposed CAM on the underlying Other opex for the 2014-19 period.

Table 9:

$M (real 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Labour	0.988	1.003	1.024	1.045	1.067	5.127
Labour Hire	0.205	0.207	0.211	0.215	0.218	1.056
Contracted Services	0.225	0.228	0.231	0.235	0.240	1.159
Material	0.051	0.051	0.051	0.051	0.051	0.255
Other	-0.694	-0.694	-0.694	-0.694	-0.694	-3.470
Total	**0.775**	**0.795**	**0.823**	**0.852**	**0.882**	**4.127**

5.6 TSA Impact on Other categories

Table 10 summaries the impact of the proposed CAM on the underlying Other opex resulting from the loss of synergies of the TSA for the 2014-19 period.

Table 10:

$M (real 2013/14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Labour	0.281	0.489	0.499	0.509	0.520	2.298
Labour Hire	0.058	0.101	0.103	0.105	0.106	0.473
Contracted Services	0.064	0.111	0.113	0.115	0.117	0.520
Material	0.014	0.025	0.025	0.025	0.025	0.114
Other	-0.197	-0.338	-0.338	-0.338	-0.338	-1.549
Total	**0.220**	**0.388**	**0.402**	**0.416**	**0.430**	**1.856**