CitiPower and Powercor Australia

SUBMISSION TO AER ON ADDITIONAL CONSULTATION ON REGULATORY INFORMATION NOTICE FOR ECONOMIC BENCHMARKING

7 November 2013

1 INTRODUCTION

CitiPower and Powercor Australia (**the Businesses**) welcome the opportunity to provide feedback to the Australian Energy Regulator (**AER**) in response to the email received on 30 October 2013 in regards to the Regulatory Information Notice for economic benchmarking (**Economic Benchmarking RIN**).

The email requested feedback on:

- Amendments to the data requirements relating to vegetation management;
- A standard method for disaggregating the Regulatory Asset Base (**RAB**); and
- Definitions of actual and estimated data.

The Businesses have provided feedback on each of the above items. Feedback on the vegetation management data requirements are provided in Attachment A.

2 METHOD FOR DISAGGREGATING THE RAB

The Businesses support the proposal to allow Network Service Providers (**NSP**) to determine the best allocation method, given the information available, to disaggregate the RAB into the AER's economic benchmarking categories. The Businesses understand that the proposed standard method would apply only in the event that the NSP did not have an alternative method available which provided a better reflection of the RAB disaggregation.

The Businesses have reviewed the AER's proposed standard method and have some apprehension about the proposed standard method where direct attribution to the economic benchmarking categories is not possible.

In the event an asset class includes assets that cannot be allocated to a single benchmarking category, the AER intends it to be allocated on the basis of share of depreciated replacement cost of assets within that asset class. The allocation for all the years is proposed to be based on 2012 replacement cost. This method would require the estimation of unit rates and quantities of thousands of assets under each asset class. This would add to an additional level of complexity to the benchmarking analysis. Moreover, the depreciation life for each asset is different and it is not a function of replacement cost of just one year which implies the proposed approach will result in inaccurate estimates of depreciation.

The use of a single year, 2012, to allocate capex and depreciation for all other years will provide an inaccurate version of actual RAB roll forward. There are simpler and more accurate options available like using the book value of assets instead of replacement costs. This would imply allocation of initial RAB, capex and depreciation based on the statutory book value. However, the Businesses note that, although simpler, the method of using book values also does not provide a good estimate of depreciation because of the divergence between accounting and regulatory depreciation.

A simpler method would be for the AER to use the regulatory RAB categories (sub-transmission, distribution system) for benchmarking purposes instead of voltage based categories. This is because, for Victorian distributors, the RAB is already disaggregated into these categories and only a split between overhead and underground assets is required. Disaggregation by sub-transmission and distribution would also better reflect the cost differences between the sub-transmission and distribution assets and would generally capture much of the cost difference between higher and lower voltage lines. In this case depreciation will be accurate as it can be based on remaining lives approved under regulatory determinations.

The Businesses also consider it necessary for AER to specify a start year to allocate the initial RAB. For example, year 2006 can be used as the start year to allocate the initial RAB and then this can be rolled forward and backward based on allocation of capex and depreciation. The Businesses consider that data should only be rolled forward from 2006 onwards due to the uncertain quality of disaggregated data prior to 2006.

3 DEFINITIONS OF ACTUAL AND ESTIMATED DATA

The Businesses appreciate the AER providing definitions of actual and estimated data.

The Businesses support the submission made by the Energy Network Association which specifically relates to the definitions of actual and estimated data.

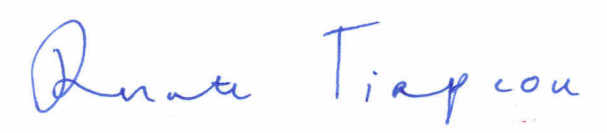
In addition, the Businesses seek clarification of whether data that is sourced from prior regulatory submissions, would be considered to be 'actual' or 'estimated' data and whether this answer is different depending on whether the prior regulatory submission was audited or not.

4 CONCLUSION

The Businesses appreciate the opportunity to provide feedback to the AER on the proposed amendments to the Economic Benchmarking RIN. The Businesses are keen to assist the AER to resolve the drafting and practical issues raised in this submission that may otherwise impede the effectiveness of the Draft Economic Benchmarking RIN.

If you have any queries regarding this submission please do not hesitate to contact Megan Willcox on 03 9236 7048 or mwillcox@powercor.com.au.

Yours sincerely



Renate Tirpcou

Manager Regulation

CitiPower and Powercor Australia

ATTACHMENT A

The Businesses provide the following comments on the availability of the data requested by the AER.

The Businesses request that the AER reinstate the clarification that vegetation management activity to be reported in the Economic Benchmarking RIN is only that which is the responsibility of the NSP and not any activity that is the responsibility of Councils or other third parties.

AER Variable	AER Definition	Businesses comments
Total number of vegetation maintenance spans	The total count of spans in the network that are subject to vegetation management practices in the relevant year. If a DNSP records poles rather than spans, the number of spans is the number of poles less one.	The Businesses can only provide data on the number of spans inspected and the number of spans cut in a particular year for Powercor from 2005 and for CitiPower from 2008. Note that some of the spans that are inspected will subsequently be cut. The Businesses recommend that the AER capture both number of spans cut and number of spans inspected as separate data items. This is because approximately 80% of vegetation management costs relate to cutting rather than inspecting.
Total number of urban and CBD vegetation maintenance spans	The total count of spans in CBD and urban areas that are subject to vegetation management practices in the relevant year.	The Businesses can estimate this data.
Total number of rural vegetation maintenance spans	The total count of spans in rural areas that are subject to vegetation management practices in the relevant year. Rural spans include spans in rural short and rural long feeders.	The Businesses can estimate this data.
Total number of spans	The total count of spans in the network in the relevant year.	The Businesses can estimate this data.

AER Variable	AER Definition	Businesses comments
Average CBD and urban vegetation maintenance span cycle	The overall average planned number of years between which cyclic vegetation maintenance is performed in CBD and urban areas. This can be calculated based on a simple average of all the urban vegetation maintenance span cycles.	The Businesses cannot populate this data and could not provide a good estimate. The Businesses do not manage spans on specific cycles, i.e. we do not visit sites every 1, 2 or 3 years. The Businesses give each span a code representing the year in which it is anticipated that vegetation will enter the clearance space as defined in regulation and plan to action in the year preceding this. Actual year that clearance work is necessary may be more or less depending on a range of factors, including for example weather and tree growth. The Businesses could also estimate, for spans cleared in a particular year, the years since last cleared, however this is not a good proxy for future clearance cycle as the Businesses have since 2012 been completing a program of cutting to achieve literal compliance with the regulations. On completion of this program literal compliance must be maintained and will, in many locations, require more frequent cutting cycles than would have occurred historically.
Average rural vegetation maintenance span cycle	The overall average planned number of years between which cyclic vegetation maintenance is performed in rural areas. This can be calculated based on a simple average of all the rural vegetation maintenance span cycles.	As above.
Average number of trees per CBD and urban vegetation maintenance span	The estimated average of the number of trees within CBD and urban vegetation maintenance spans. An estimate can be based on the DNSPs defect records, scoping records or field surveys.	The Businesses do not collect information on number of trees. Information is reported based on spans and defects are reported against the respective span. Notwithstanding, it is not clear from the definition if all trees are to be counted or only those requiring management. Some tree species will be in a span but require no action.
Average number of trees per rural vegetation maintenance span	The estimated average of the number of trees within rural vegetation maintenance spans. An estimate can be based on the DNSPs defect records, scoping records or field surveys.	

AER Variable	AER Definition	Businesses comments
Average number of defects per CBD and urban vegetation maintenance span	The average number of vegetation related defects that are recorded per vegetation maintenance span in CBD and urban areas in the relevant year. Where a vegetation defect is a reported/recorded non-compliance, or breach of, the applicable vegetation standard for any reason, and reported/recorded from any source (e.g. inspections, aerial patrol, LiDAR, staff, public, etc.).	The Businesses only collect data on the worst defect per span and therefore cannot provide this data. It should be noted that a defect could be anything from a branch trim or significant work and therefore an average count of defects could be a misleading representation of vegetation management effort or compliance.
Average number of defects per rural vegetation maintenance span	The average number of vegetation related defects that are recorded per vegetation maintenance span in rural areas in the relevant year. Where a vegetation defect is a reported/recorded non-compliance, or breach of, the applicable vegetation standard for any reason, and reported/recorded from any source (e.g. inspections, aerial patrol, LiDAR, staff, public, etc).	
Tropical proportion	The approximate total number of vegetation maintenance spans in the Hot Humid Summer and Warm Humid Summer regions as defined by the Australian Bureau of Metrology Australian Climatic Zones map (based on temperature and humidity). The classification map is available at http://www.bom.gov.au/climate/environ/travel/map.shtml.	This data is available.
Bushfire risk	The number of vegetation maintenance spans in high bushfire risk areas as classified by the local jurisdictional fire authority.	This data is available for Powercor from 2005 and for CitiPower from 2008.