

CitiPower and Powercor Australia

SUBMISSION TO AER ON DRAFT REGULATORY INFORMATION NOTICE FOR CATEGORY ANALYSIS BENCHMARKING

17 January 2013

1 INTRODUCTION

CitiPower and Powercor Australia (**the Businesses**) welcome the opportunity to make this submission to the Australian Energy Regulator (**AER**) in response to the Draft regulatory information notices to collect information for category analysis (**Draft Category RIN**) provided on 6 December 2013.

The Businesses support the AER seeking quality information in order to improve its decision making. However, it needs to be recognised that developing a set of robust information suitable for decisions worth many millions for dollars takes time. A first pass of an exercise as large as the Category Analysis RIN is likely to give rise to a multitude of definitional issues, inconsistencies, interpretation issues and alike. The Businesses are concerned the AER is not recognising this and will place undue weight on unreliable category data in making its decision.

There are a number of reasons why the AER should only use the category RIN data for informative rather than deterministic purposes, including the following:

- to complete the RIN, the Businesses will be compelled to adopt arbitrary allocators to populate the Category RIN. Further, in order to achieve compliance, there are significant risks that other Distribution Network Service Providers (**DNSPs**) will provide information unfit for benchmarking purposes which will be used potentially by the AER to the Businesses' detriment;
- the proposed timeframes for completion of the Category RIN are unrealistic. The Businesses do not believe the AER will receive sufficient quality data under such short time-frames;
- in many cases the Businesses' existing systems and operational practices do not capture the AER's data requirements. The Businesses are working on implementing the necessary system and operational changes to more accurately capture the AER data requirements but this will take time; and
- the Businesses consider back-cast data will not, in all instances, provide the AER useful trends for the purposes of benchmarking. In many instances real trends will be overshadowed by data and methodological issues.

The Businesses support the AER continuing to develop its data and benchmarking techniques however, until these are demonstrably robust, any inferences must necessarily be informative only. Such an approach reduces the risk of spurious outcomes and ensures that stakeholder confidence in the AER's benchmarking program is not undermined.

Finally, the Businesses are committed to making the necessary business systems and operational changes in order to provide the AER its information requirements. However, given the high cost of implementing new business systems and making operational changes, the Businesses require a high level of certainty from the AER as to future information requirements.

The remainder of this submission covers the following:

- key Draft Category RIN issues;
- audit and principle requirements;
- wording of the statutory declaration;
- Attachment A: Comments on Draft Category RIN worksheets.

2 KEY ISSUES

The next section sets out a number of key issues with the Draft Category RIN.

2.1 Reconciliation

Appendix E, clause 1.3(a) of the RIN notice requires for each variable filled in a regulatory template and a Microsoft excel workbook that reconciles and explains adjustments between the Statutory and the Regulatory Accounting Statements.

The Businesses strongly argue data integrity will be compromised in seeking reconciliation. Historically data has not been collected as specified by the Draft Category RIN. The Businesses through sampling and allocations will attempt to produce the Category RIN data. In order to achieve reconciliation the Businesses will need to include a balancing item.

It is not possible to reconcile each Category RIN variable with the Statutory and Regulatory Accounting Statements. Therefore, if the AER's intention is to demonstrate the Category RIN data is credible by forcing reconciliation this objective will not be achieved.

For regulatory purposes, the Businesses' systems have been developed to provide Annual RIN information. This has been a long and iterative process. There are many inconsistencies between the Annual RIN and the Draft Category RIN information requirements. For example, the AER is now requesting Pole Tops be reported as *'simple'* or *'complex'* which is completely different to the categorisation by voltage as provided by the Businesses in the Annual RIN submissions. The Businesses urge the AER to ensure the Draft Category RIN is consistent with the Annual RIN.

2.2 Estimation

The Businesses, for internal reporting purposes, do not capture costs based on the Draft Category RIN categories. As noted, the Businesses have to adopt arbitrary allocators in order to populate the Draft Category RIN.

The figure below sets out a high level depiction of the Businesses' cost capture process for asset replacement and maintenance activities.



In respect to routine '*poles and wires*' replacement and/or maintenance activities, in practice the Businesses package a number of small projects together to efficiently use a workcrew for the day. The total work package costs are then split across a number of capital or operating Function Codes appropriate to the mix of projects.

In the case, for example, of one capital project to replace a defective pole, in replacing the pole the necessary replacement of assets on the defective pole, such as cross arms, insulators, HV surge diverters, and sometimes a transformer, will be included in the cost of replacing the pole. The total project cost will include labour, material, contractor and overhead costs. All the physical assets replaced are not recorded financially with individual replacement costs, the total replacement costs are recorded against the defective pole.

All the physical assets replaced are entered into a geographical information system (GIS) which records geographically referenced information excluding asset cost.

In respect to pole replacement, the Draft Category RIN requires the Businesses to derive a unit rate for sixteen different pole replacement activities and split expenditure across a number of different feeder types. As demonstrated by the example, there are significant inconsistencies between how the Businesses report costs against physical assets and the Draft Category RIN information requirements.

The Draft Category RIN states that, where it is not possible to provide any particular information required by the RIN, the DNSP must provide an estimate. The Businesses consider that providing an estimate should not be required in circumstances where there is no reasonable basis on which to provide an estimate.

The Businesses recommend the AER introduce a process for DNSPs to seek exemptions from the requirement to provide an estimate where there is no basis on which to do so. To facilitate this, the Category RIN should include a provision that allows a DNSP exemption from providing data if the AER has provided pre-approval.

2.3 Onus on uncontrollable costs

In order to discharge its statutory obligations in the context of applying benchmarking analysis, the AER must ensure it has access to information fit for benchmarking purposes and capable of producing robust results. The Businesses consider identifying uncontrollable factors are a mutual responsibility. The AER is best placed to obtain the required information, principally through the use of its compulsory information gathering powers to identify uncontrollable factors and reasons for differences between DNSPs. The Businesses cannot be expected to appreciate all the different cost drivers of all other DNSPs in Australia, nor do they have the information gathering powers of the AER to obtain such information.

Further, in ensuring the AER has the best comparators, the Businesses encourage the AER to ensure all data for benchmarking purposes is made transparently available. Access to the data is imperative to enable DNSPs to effectively participate in the consultation process on the models and data the AER will adopt. This is particularly so given the AER is placing an onus on the Businesses to normalise data.

3 PRINCIPLES AND REQUIREMENTS

The Businesses have the following specific concerns with the proposed RIN notice requirements:

a) Schedule 2, clause 1.2 requires the Businesses to explain why the estimate is the Businesses' *'best estimate'*. The nature of an estimate requires assumptions, thus, creating multiple valid answers rather than a single *'best estimate'*. Further, the quality of any estimate is constrained by the information that is available to the Businesses and therefore the appropriateness of any estimate should be considered having regard to the data that is available.

The Businesses should be required to demonstrate the information has been estimated based on management judgement and assumptions that are '*not unreasonable*' having regard to the information that is available to the Businesses.

- b) Schedule 2, clause 1.3(b)(ii) requires any underlying calculations and formulae to be included (where applicable). Providing the underlying calculations and formulae would be impractical because of the numerous spread sheets and business system downloads that underpin the financial data. The Businesses would expect the audit requirements should provide sufficient comfort to the AER on such matters.
- c) Appendix E, clause 1.1 sets out requirements in respect to the Regulatory Account Statements. It is unclear the requirements' relevance in respect to the Category RIN.
- d) Appendix E, clause 1.3(a) requires for each variable filled in a regulatory template and a Microsoft excel workbook that reconciles and explains adjustments between the Statutory and the Regulatory Accounting Statements. Such a request is highly impractical and should be removed.

4 STATUTORY DECLARATION

The AER proposes that for the Category RIN, the Businesses must certify that actual historical data is true and accurate and that estimated information is the best estimate.

In requiring that the Businesses must certify historical information to be true and accurate, the AER is imposing a different assurance standard than the audit standard, which requires that information is 'free from material misstatement and a fair presentation'.

The term 'accurate' does not appear anywhere in the audit standard, and therefore it is uncertain whether or not the auditor can provide assurance. Rather than imposing a different standard for RINs the Businesses propose that the wording in the statutory declaration be amended to be 'true and fairly stated'.

5 CONCLUDING REMARKS

The Businesses appreciate the opportunity to make this submission to the AER on the Draft Category 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 Category RIN.

If you have any queries regarding this submission please do not hesitate to contact Renate Tirpcou on 03 9683 4082 or rtirpcou@powercor.com.au.

Yours sincerely

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Renate Tirpcou MANAGER REGULATION CITIPOWER AND POWERCOR AUSTRALIA

Attachment A: COMMENTS ON DRAFT CATEGORY RIN WORKSHEETS

The Businesses appreciate the changes that the AER has made to date on the Draft Category RIN. The table below sets out comments the Businesses have identified.

Worksheet	Rusinesses comments
2.1 Expenditure Summary	Historically data has not been collected as specified by the Draft Category RIN. Without a balancing item, it is not possible to reconcile the Draft Category RIN variables with the actual costs reported in the Statutory and Regulatory Account Statements. The integrity of the data will be compromised.
	The Alterative Control Services tables should be relabelled because the services listed as Alternative Control are classified differently between each jurisdiction.
	Connections are included in both the Standard Control Services and Alternative Control Services tables. In Victoria, routine connections below 100 Amps are classified as Alternative Control Services and connections requiring augmentation are classified as Standard Control Services. Is this what is intended to be reported under each service classification? If not, and all connection costs are to be reported under Alternative Control Services, then the Businesses advise the AER to remove connections from the Standard Control Services tables.
	Under the Draft Category RIN, metering services have been classified as Alternative Control Services. Metering Services in Victoria are currently subject to the Advanced Metering Interval (AMI) Order in Council (OIC). There is no service classification for AMI under the National Electricity Rules (NER).
2.2 Repex	 There are many inconsistencies between the Businesses Annual RIN and the Draft Category RIN information requirements. For example the Draft Category RIN: separates Protection Relays, SCADA and Network Control from replacement expenditure. There is no SCADA and Network Control category in the repex worksheets. categorises pole top structures as simple or complex. In the Annual RIN the category is defined as cross arms and categorised by voltage. seems to include service lines in the same categorisation as connection types as per the '2.5 Connections worksheet'. This is an inappropriate asset classification, as the Businesses Annual RIN classifies services as LV overhead or underground services. splits the overhead conductors by material. Presumably this relates to existing material. The replacement cost is driven by the replacement material not the existing material. This data will need to be extracted manually from each project scope to identify the actual work done. The Businesses strongly request that the AER maintain the Annual RIN categories, given the Businesses' systems have been developed to report based on the Annual RIN.
	A reasonable approximation of physicals for some replacement expenditure can be derived. However, the physicals will represent the defect identified rather than the actual work carried out. For other asset categories the Businesses do not have notifications and therefore volumes will only be derived by manually extracting from the project scope and/or assumptions based on material purchases.
	Asset failure data has evolved over the years. Therefore the numbers in different years will vary depending on the system and processes in place.
	The Businesses have previously highlighted to the AER how a model such as Repex cannot possibly capture all replacement expenditure across the network. One main reason for this is that a number of replacement activities are not included as they relate to sub-components of the asset classes listed, such as replacing security fences,

	transformer oil regeneration, transformer cooling systems, building repairs, etc. The sum of costs by the asset classes in the Repex model will never add up to the total replacement project costs for these reasons.
	The capital expenditure costs are allocated to the defective assets identified. For example, the costs for replacing a defective pole will be allocated to one pole replacement function code. All associated costs such as replacement of associated cross arms, insulators, HV surge diverters, and sometimes a transformer, is included in the pole replacement function code.
2.3 Augex project data	The Businesses have to manually go through each project to identify the physical and financial information for HV feeder augmentations and distribution substations augmentation. This will be a time intensive exercise given there are approximately 225 HV feeder augmentation projects and 200 distribution substation augmentation projects over the five years.
	The Businesses advise the AER to set a project materially threshold in excess of \$0.5M for the HV Feeder category Table 2.3.3, in a similar manner to the project threshold for the subtransmission projects. Using a materiality threshold of \$0.5M will still involve approximately 60 HV feeder projects across CitiPower and Powercor over the five year period.
	The Businesses advise the AER to set a project materially threshold in excess of \$50k for the distribution substation category in Table 2.3.4, in a similar manner to the project threshold for the subtransmission projects. Using a materiality threshold of \$50k will still involve approximately 50 distribution substation projects across CitiPower and Powercor over the five year period.
	Applying the AER definition of the ' <i>substation normal cyclic rating</i> ', the Businesses will use the highest transformer nameplate rating (generally with forced cooling) which are in accordance with Australian Standards for transformer ratings.
2.5 Connections	The Businesses do not categorise connections by feeder type, but categorise by connection characteristic. In order to provide the information, the Businesses will have to apply an arbitrary allocator.
	The Businesses can only undertake high level mapping for the Connection Function Codes to the Draft Category RIN expenditure categories.
2.6 Vegetation Management	The Businesses are not the custodian of every detail of vegetation management expenditure. The Businesses will have to rely on advice from our service provider, VEMCO, to attempt to provide this data.
	The Businesses do not capture the average number of trees per maintenance.
	The major zones across the Businesses as required by legislation are; High Bushfire Risk Area, Low Bushfire Risk Area and Declared Urban Area.
2.7 Maintenance	The Businesses' systems do not capture maintenance costs based on the Draft Category RIN asset categories. The inclusion of voltage and geographical categorisations create significant complexities in providing data. The Businesses are able to undertake a top down annual total cost allocation of Maintenance Function Codes into the Draft Category RIN asset categories.
	The Businesses' systems do not capture routine and non-routine maintenance expenditure separately. The degree of allocation will vary across function codes. Some function codes will largely align to routine or non-routine maintenance, others will not.
	The Businesses are unclear what meaningful figure can be included for the

	inspection/maintenance cycle. Due to Condition Routine Maintenance principles, the Businesses have widely varying timeframes for assets within the broad Draft Category RIN asset categories.
2.8 Emergency	The Businesses note that 'severe weather event' is defined as weather events related to Major Event Days (MED). The Service Performance Incentive Scheme (STPIS) specifies a MED relates to days where the unplanned System Average Interruption Duration Index (SAIDI) exceeds the MED boundaries. In other words, MED is not limited to weather events. The Businesses will have to interrogate each MED to ensure it is related to a weather event. This will be a time intensive exercise.
	The definition of MED only applies to the current regulatory control period (2011-15). The Businesses will have to make assumptions for the period prior to 2011 to ensure a consistent MED application.
2.9 Overheads	The Businesses advise the 2.9 Overheads and 2.14 Non-network worksheets should include an AMI column.
2.14 Non-network	The Businesses are unclear on the definition of IT recurrent expenditure. There is no indication around the timeframe of recurrent expenditure. Recurrent IT expenditure is not a standard IT categorisation and therefore will have to be manually allocated.
	The Businesses are unclear as to whether or not the IT SCADA and IT Smart Meter employees should be included as Non Network control employees or not.
	The Businesses are unclear on the definition of opex building and property recurrent expenditure. The Businesses advise the AER define opex motor vehicle expenditure as 'opex – building maintenance/facilities/buildings', 'opex – lease costs' and 'opex – recurrent other'.
	The Businesses' fleet management system does not provide the Draft Category RIN motor vehicle categories. The amount of time required to populate the motor vehicle worksheets is not relative to the motor vehicle expenditure materiality.
	The definitions for Non-network Motor Vehicle expenditure relates to all expenditure that is not network motor vehicle expenditure. However, Table 2.14 request expenditure for both network and non-network motor vehicle expenditure.
4.1 Public lighting	The Businesses cannot provide the average age of residential and main road lights.
	The Businesses are likely to assume routine maintenance for main road lights as major road patrols and all other costs as non-routine maintenance.
	The Businesses are likely to assume residential road lights as all lights other than a major road light.
	The Businesses are likely to assume routine maintenance for residential lights as all costs associated with bulk change lamps and per cells as required by the Public Lighting Code and all other costs as non-routine maintenance.
	The Businesses do not record the number of new lights with each customer request.
	The Businesses do not record the length of cables installed in conjunction with a customer request.
	The Businesses do not record the number of new public light poles installed in conjunction with a customer requesting a new light.
4.2 Metering	The Businesses are unclear as to whether or not the information for Table 4.2 includes both Standard and Alternative Control Services or just Alternative Control Services.

	The Businesses will find it difficult to obtain volumes for current transformers (CT) and CT connected meters for all meter categories.
	The Businesses systems do not provide the Draft Category RIN splits for each type of meter by meter testing, meter investigation and meter maintenance.
	The Businesses are unclear on the intent of Table 4.2.4. For example, do we include costs related just to metering service costs?
4.3 Ancillary services – Fee-based	The Businesses are unclear as to whether or not Table 4.3 includes only Alternative
services	Control Services related costs.
	 The Businesses seek clarification on Table 4.3.1. For example: how does Energisation differ from the New Meter Installation category specified in Table 4.2.2 (4.2 Metering worksheet)?
	 how does De-energisation and Re-energisation differ from the Special Meter Reading category specified in Table 4.2.2 (4.2 Metering worksheet)?
	The Businesses are unclear on the Common Fee Based Activities definition. Does this mean they are common across all DNSPs?
	The Businesses are unclear on the Miscellaneous Fee Based services definition. Does this include all other Alternative Control Services other than Energisation and De- energisation and Re-energisation?
	The Businesses will have to make assumptions on 2009 and 2010 volumes for other Miscellaneous Fee Based services.
4.4 Ancillary services – Quoted	The Businesses have no comments.
5.2 Asset age profile	The Businesses have no comments.
5.3 Maximum demand – network level	The data request appears to be for nine years of data, whereas every other Category is seeking five years of data. To ensure consistency with the Augex data in particular, only five years of demand data to be provided in this Template. For Victoria, this period will be for 2009 to 2013, with the 2013 demand data relating to the summer of 2012/13.
	The Business will need to rely on external forecasters and likely some assumptions to provide the network total temperature corrections.
5.4 Maximum demand & utilisation – spatial	The data request appears to be for nine years of data, whereas every other Category is seeking five years of data. To ensure consistency with the Augex data in particular, only five years of demand data to be provided in this Template. For Victoria, this period will be for 2009 to 2013, with the 2013 demand data relating to the summer of 2012/13.
	The Businesses do not temperature correct co-incident maximum demands as it is a time consuming task and provides no value. Expenditure is driven by the non-coincident demand levels and these are the important demand levels that require temperature correction. Coincident factors are obtained without temperature correction, so there is no requirement to temperature correct spatial maximum demands at transmission connection, zone substation, subtransmission line and HV feeder levels. The Businesses strongly request the AER delete the requirement for coincident loading temperature correction.
	The Businesses can provide 50 Probability of Exceedance (PoE) weather (temperature) correction only for non-coincident zone substations, and only back to 2010 for Powercor Australia and back to 2006 for CitiPower. The Businesses have no data relating to 10% and 50% PoE weather correction for non-

	coincident subtransmission line loadings.
	The Businesses' process for forecasting subtransmission line loading relies on undertaking load flow analysis using the zone substation forecasts, and so the critical process is temperature correction of the zone substation actuals to prepare the zone substation forecasts, and then applying zone substation diversity factors to provide the subtransmission line forecast. Attempting to temperature correct subtransmission line actuals is a time consuming task that is irrelevant in preparing subtransmission line forecasts. The Businesses strongly request the AER delete the requirement for non-coincident subtransmission line loading temperature correction.
	The Businesses have not captured data relating to each HV Feeder coincident maximum demand levels, and so are unable to provide this information. Consistent with the AER's annual reporting requirements, the Businesses have reported non-coincident raw HV Feeder maximum demands for more than ten years.
	The Businesses have no data relating to the 10% and 50% PoE weather correction for non-coincident distribution feeder loadings. Each feeder has unique customers and loading characteristics and it would be a challenging task to attempt to analyse and prepare temperature correction factors for each of the approximately 1,000 HV feeders in the Business. This process would involve many months of work and, as feeders can change regularly, would not have much currency. Temperature correction is considered to be only effective at zone substation level and above, where sufficient customer aggregation has occurred.
	The Businesses strongly request the AER delete the requirement for HV feeder loading temperature correction.
	The Businesses will assume the AER considers subtransmission substation to be a terminal station connection.
	The Businesses are unclear on the definition for block loads. If the information must be corrected for biases then the Businesses do not have any block loads.
	The Businesses presume the applicable line rating must be applied for the respective summer and winter peak.
6.3 Interruptions to supply	The Businesses have no comments.