



**CitiPower, Powercor Australia and
SA Power Networks**

**SUBMISSION TO AER ON THE
REVISED DRAFT DATA LIST FOR
ECONOMIC BENCHMARKING**

16 August 2013

1 INTRODUCTION

CitiPower, Powercor Australia and SA Power Networks (**the Businesses**) welcome the opportunity to make this submission to the Australian Energy Regulator (**AER**) in response to the revised draft data list for economic benchmarking initially provided on 31 July 2013 and updated on 5 August 2013 (**Revised draft data list**).

The Businesses' submission covers the following key issues:

- The audit requirements for benchmarking data; and
- The proposed timing of the benchmarking Regulatory Information Notice (**RIN**); and
- Comments on the data definitions in the Revised draft data list, including comments on the availability of the proposed disaggregated Regulatory Asset Base (**RAB**) roll forward data (as requested by the AER in an email dated 22 July 2013).

The Businesses understand that the AER will be formally consulting with Distribution Network Service Providers (**DNSPs**) on a draft benchmarking RIN in September 2013.

2 AUDIT REQUIREMENTS

The Businesses note that the AER's position on auditing in its email dated 5 August 2013, which suggests that audit may not be required for all financial and non-financial data, is inconsistent with the AER's explanatory note on the Draft Expenditure Forecast Assessment Guideline (**Draft Guideline**) published on 9 August 2013 which indicates that audit of all data would be required.

As previously submitted, the Businesses consider that it is essential that the AER ensure that all data, financial and non-financial, used for benchmarking is audited and publicly disclosed. If data used for economic benchmarking is provided on an unaudited basis then stakeholders will have no confidence that the outcomes from the benchmarking are not simply a result of poor quality data.

The AER has indicated that it intends to use economic benchmarking to:

- Publish the annual benchmarking reports which will attract significant stakeholder (including media and investor) attention and have real business impacts;
- Determine whether or not a DNSP's cost forecasts will require a greater and more detailed level of scrutiny;
- Determine whether it considers that a DNSP has been responding to the EBSS incentive scheme;
- Determine whether or not the regulatory determination will be based on revealed costs. Further, it is unclear how the AER would determine adjusted costs, including what reliance might be placed on costs estimated from the different types of benchmarking including economic benchmarking, category analysis and engineering review; and
- Develop a rate of change formula that would be applied to escalate opex base year costs and estimate forecast opex for the regulatory period.

Importantly in the explanatory statement to the Draft Guideline, the AER stated that if it considers that ‘...*economic benchmarking provides the most appropriate forecast then we will use it to set expenditure allowances...*’

The AER will therefore be using economic benchmarking to make important decisions in the regulatory review process. The Businesses do not consider these decisions to be immaterial as they have significant impact on the final revenue allowances approved for the regulatory period.

In the email dated 5 August 2013, the AER proposed that, in lieu of audit, Director Certification that the data meets the requirements is appropriate. The Businesses consider that this proposal is not appropriate as it places Directors in an impossible position. Section 28N of the National Electricity Law which requires DNSPs to comply with a RIN is a civil penalty provision. Therefore, in order for Directors to confidently certify that the data complies with the RIN they will require audit assurance. If audit assurance is not required then Directors would face a significant risk of the AER taking enforcement action. This level of risk will be unacceptable to Directors.

Conversely, in the explanatory statement to the Draft Guideline, the AER states that NSPs could submit data to the AER prior to Board sign off to expedite the process. The Businesses consider this proposal is untenable. Managers are not in a position to make data submissions to the AER without Board approval. Such an approach would undermine the importance and validity of the Businesses’ governance procedures. Furthermore, DNSPs could be subject to civil penalties under the National Electricity Rules (**NER**) for failing to provide correct information.

Audit of historical and ‘back-cast’ data

The Businesses recommend that the AER consult with recognised audit practitioners regarding what sort of audit comfort can be provided by the audit firms with regards to the historical data. The AER will need to publish a standard or guideline as a point of reference to which the auditors can give an opinion on. For non-financial information, one complication that will likely arise is the ability of DNSPs to prove the existence of the process and system controls that were in operation in the past. An external auditor would be unlikely to be able to form a view on the reliability of the systems that operated in the past and were used to produce the non-financial type information being requested? With regard to the information that requires assumptions to be applied, e.g., the disaggregation of the RAB, auditors may only be able to assess whether a DNSP has applied the assumptions it has documented. It would be up to the AER to assess whether the documented method is appropriate since this requires knowledge of regulatory concepts rather than accounting concepts.

Furthermore, the Businesses caution the AER that quality of historical data will significantly decline the further back the data is required as a greater degree of judgment and estimation will be required. This will severely compromise the quality of the data and stakeholder confidence in the AER’s benchmarking results. If the AER does require substantial back-casting of data, however, then it will need to ensure that DNSPs’ interpretations and applied assumptions are publicly available so that the quality and consistency of this data both across time and across DNSPs can be appropriately assessed.

The Businesses do not necessarily hold all the information being requested by the AER for the periods being requested. Therefore, the Businesses may need to make crude assumptions to complete the template for back-casted data. In addition, the AER’s models will be biased by numerous differences in the regulatory accounting policies which have developed over time and before any progress on consistency between different States.

Given the lack of a robust data set, the AER must perform detailed testing of the validity of any models that rely upon poor quality data. The AER should release the results of these tests in conjunction with the models, and consider other more robust approaches to forecasting operating and capital expenditure.

3 TIMING OF BENCHMARKING RIN

The AER has proposed that the final benchmarking RIN will be issued sometime in either October or November 2013 and DNSPs would be required to submit the audited data set by February 2014. This timing is problematic for the Businesses because the statutory accounts are audited during January and February. The auditors for CitiPower and Powercor Australia are then also engaged for the audit of the annual RIN which will occur during March and April 2014. An audit process will usually take around six weeks. The Businesses are therefore not certain that our auditors will have resources available to undertake the audit of the benchmarking RIN over the same period.

The requirement to provide ten years of historical data in a very short timeframe will significantly increase the burden on both DNSPs and their auditors. The auditors will not be familiar with the information requirements and DNSPs will need to explain estimation and disaggregation methods. This will be a time consuming process and the Businesses estimate total audit costs of approximately \$500,000 for the three Businesses.

The Businesses caution the AER against unnecessarily expediting the data collection and quality assurance process. Such an approach would compromise stakeholder confidence in the integrity of the data and undermine the credibility of the AER's benchmarking. The Businesses therefore consider that it would be better for the AER to devote the time necessary to develop a high quality data set that enables robust analysis to develop over time from this point forward.

Importantly, it is not necessary for the AER to rush the data collection and quality assurance process for the purposes of the first annual benchmarking report due by September 2014. Clause 6.27 of the NER states that the purpose of the annual benchmarking report is to assess the relative efficiency of DNSPs over a 12 month period. The AER does not require ten years of historical data to meet this requirement.

4 DATA DEFINITIONS

The table below sets out the issues that the Businesses have identified thus far in the AER's Revised draft data list for economic benchmarking.

Data requested	Businesses' comments
DDEF01	<p>When a customer is connected to the network the Businesses record the capital contribution provided and the capital expenditure on the augmentation. Upon completion of the augmentation and connection of the customer/s that customer and the associated assets are from that point on treated as being part of the network as a whole.</p> <p>This means that the Businesses do not separately record operating and maintenance expenses, energy supplied, or asset replacement based on whether that part of the network was originally a new customer augmentation.</p> <p>It is not possible for the Business to record or estimate such information. Therefore all information in the templates would be the same for network services and standard control services (since capex data is not requested).</p>
DDEF04 01-03 Year coverage	<p>The template needs to be clear which reporting period is to be used.</p> <p>The Businesses will only be able to report the data based on the relevant regulatory year, i.e., year ending 31 December for CitiPower and Powercor and year ending 30 June for SA Power Networks.</p>
DOPEX 01 to 08 Opex categories	<p>The revised draft data templates request that NSPs should populate the opex categories on the basis of their annual RIN categories. This information will be inconsistent across DNSPs in different jurisdictions and therefore will be of limited value for economic benchmarking. The AER should specify what opex categories it requires for the economic benchmarking purposes. For example in Victoria, vegetation management expenses are not reported separately from other routine maintenance expenditure in the annual RIN which is inconsistent with DNSPs in other states including South Australia. However the AER would require this information to understand the drivers of increased opex in recent years for some networks.</p>
DPA03-01 to 10 and DPA04-01 to 09 MVA capacity by voltage class	<p>Please advise how far down the feeder the measurement should go.</p> <p>Subject to the above query, CitiPower and Powercor Australia can provide an estimate of this data for the current year but would have to assume the same capacity for prior years.</p> <p>SA Power Networks would require a clearly defined methodology based on a specific rating and may not collect specific data to provide a weighted average particularly at lower voltages.</p>
DPA0503 Cold spare capacity	<p>Only available for spare zone substation transformers.</p>
DRAB13-01 to 09 Estimate service life of new assets	<p>It is not clear whether this is simply an estimation of approximately how long each type of asset would be expected to operate for if it was purchased today. If so, shouldn't this assumption be the same for all time periods? Please advise.</p>

Data requested	Businesses' comments
<p>DRAB01-01 to DRAB12-07 RAB roll forward by asset category</p>	<p>The AER requested that NSPs advise whether the RAB roll forward is able to be directly allocated to the specified disaggregated asset classes.</p> <p>For the period 2005 to 2012 CitiPower and Powercor Australia are only able to disaggregate the RAB roll forward into the following categories:</p> <ul style="list-style-type: none"> • Distribution system assets; • Sub-transmission assets; • Non-network IT; • Non-network other; and • Metering non-AMI. <p>For the same period, SA Power Networks can disaggregate the RAB roll forward into different categories:</p> <ul style="list-style-type: none"> • Distribution lines and cables; • Subtransmission lines and cables; • Distribution transformers; • Substations; • Low voltage supply and meters; • Communications; • Vehicles; • IT and Office equipment; • Land and buildings; and • Plant, Tools and Office furniture. <p>The Businesses have considered the issue of how RAB data should be allocated to standardised asset categories when direct allocation cannot be conducted. Crude assumptions would be required to disaggregate the above categories further. However using such estimated data would not be appropriate for the development of accurate and robust benchmarking models to be used for the annual benchmarking report or as a basis for the AER to calculate expenditure forecasts.</p> <p>For the period 2001 to 2005, the Businesses are not able to disaggregate the RAB roll forward below the total level as only total regulatory depreciation and total asset base is available. Significantly more assumptions would therefore be required to disaggregate this data.</p>
<p>DSQ03 Energy not supplied</p>	<p>Clarify if raw or normalised.</p>

Data requested	Businesses' comments
<p>DOPSD 01 to 08 and DEF01 03 Peak demand</p>	<p>Peak demand measures are requested at zone substation level however this will fail to take account of demand from customers directly connected at sub-transmission voltages. Peak demand should therefore be measured at the terminal station level.</p>
<p>DOPSD 02, 04, 06, 08 – Weather adjusted peak demand</p>	<p>The definition does not specify on what basis (i.e. the Probability of Exceedance level) the weather adjustment should be reported.</p>
<p>DOPSD 03,04, 07, 08, Coincident summated system annual peak demand (raw and weather adjusted)</p>	<p>This information is available however it is not used for planning purposes and does not reflect how the network is built to accommodate peak demand.</p>
<p>DOPSD 09 Power factor conversion between MVA and MW</p>	<p>It is not clear why the AER is requesting data on the power factor. Please advise.</p> <p>The power factor level varies by zone substation depending on the day of maximum demand and load characteristics. Therefore applying a single number to convert the data between MVA and MW would not be accurate.</p>
<p>DQS 05 Network utilisation</p>	<p>The proposed definition should not include network length in system capacity as it would mean that network utilisation would be more a function of line length of the network than the use of the network. A ratio of non-coincident peak demand compared to the sum of transformer capacity at the subtransmission level plus the last or distribution transformer level would be independent of line length.</p> <p>Notwithstanding, if the AER retains the current definition then it would be necessary to clarify if 'total network length' is based on route or circuit kilometres.</p>
<p>DSQ 01 SAIDI</p>	<p>The unit of measurement is minutes however the description is minutes per customers. It is therefore not clear if the index is required or total customer minutes off supply.</p> <p>The Businesses note that severe weather events can drive marked volatility in annual reliability performance for a DNSP, and thus it is important to use adjusted reliability performance outcomes which remove the effects of certain severe weather events.</p>
<p>DSQ 02 Distribution – related unplanned SAIDI</p>	<p>The unit of measurement is minutes however the description relates to customer numbers. It is therefore not clear what is required.</p>
<p>DOPE04 01-03 Energy received from TNSP at peak and off peak times</p>	<p>Note that DNSPs also receive energy from other DNSPs and this will not be captured in energy received from TNSP.</p> <p>Note that the peak and off-peak times may differ across DNSPs that are exchanging energy. The definition will need to clearly specify that the receiving DNSP's time period should be used to enable data collection.</p>

Data requested	Businesses' comments
<p>DOPED04 01-03 Energy received from embedded generation at peak and off peak time</p>	<p>Only net energy delivered/received is available for embedded generation and solar photovoltaic installations as it is sourced from revenue metering.</p> <p>However the network must be built to accommodate gross energy receipt and delivery to cater for times when embedded generators and photovoltaic are not generating.</p>
<p>DEF05 01 to 03 Delivery time period</p>	<p>Tariff peak and off-peak days of the week are different for different customer types, i.e. 5 day or 7 day and therefore a single period cannot be provided for the whole network. SA Power Networks currently has 5 different combinations of peak and off-peak tariffs that can apply depending on the day of the week and time of day.</p> <p>The template needs to accommodate this.</p>
<p>DREV01 01-08 and DOPED02 01-05 Revenue from on-peak and off-peak charges. Energy delivered at on-peak, shoulder and off peak times.</p>	<p>Note that this information will represent energy delivered at tariff peaks and the associated revenue. It will not accurately represent energy delivered or revenue received at system peak times, particularly where there are controlled loads.</p>
<p>DEF0201 Rural proportion</p>	<p>Not available for LV lines prior to 2006 for Powercor Australia. Assumptions would have to be made to estimate further back.</p>
<p>DEF02 03 Standard vehicle access</p>	<p>More clarity is required on how to calculate the percentage. How is total network measured? Is it measured in kilometres of line? How is the standard vehicle access proportion measured? Are 'open paddocks' included where they are not easily accessible due to fencing and locked gates?</p> <p>No data is currently available on this. The Businesses expect that GIS would be required to calculate this (once clearly defined) and therefore data would only be available for the current period and future periods.</p>
<p>Bushfire risk</p>	<p>As submitted on numerous occasions and during workshops, bush fire risk is a significant cost driver for Powercor Australia and SA Power Networks. This is not currently captured in the Revised draft data list.</p> <p>The Businesses recommend that the AER collect data on the percentage of service area classified as high bush fire risk areas.</p>
<p>Weather data</p>	<p>The AER has not requested weather data in the Revised draft data list.</p> <p>In order for stakeholders to be able to provide feedback, the AER should state what specific Bureau of Meteorology data it intends to use in its modelling.</p>

Data requested	Businesses' comments
<p>DEF02 02 Vegetation encroachment</p>	<p>Vegetation encroachment is a significant cost driver for Powercor Australia and SA Power Networks and is an environmental factor outside the control of DNSPs. The cost drivers are very complex and result in significant cost differences.</p> <p>As a simple measure of vegetation encroachment would not adequately account for significant vegetation management costs incurred by some DNSPs, these costs are not comparable across networks and should be excluded from the measurement of operating input costs.</p> <p>Notwithstanding the above, the Businesses suggest that instead of the current proposal, the AER should collect data on the total number of spans where the DNSP has primary responsibility for cutting the spans. This measure is independent of DNSPs' control and is independent of the DNSPs' cutting cycle and is more representative of the effort and costs a DNSP will incur.</p> <p>However, if the AER proceeds with the current definition then:</p> <p>This item is not clearly defined. The definition needs to specify what 'requiring vegetation management' means. That is, what is the activity? Does it mean cutting of vegetation adjacent to a span? Based on the current definition most DNSPs could reasonably assign a 100% value in all years on the basis that the entire network requires vegetation management at all times.</p> <p>The definition also needs to clarify that the DNSP has primary responsibility for undertaking any cutting that is required and would not include any spans that would be the responsibility of third parties such as Councils.</p> <p>A percentage figure is not likely to give the AER information about vegetation effort. This is because a DNSP with a small number of spans could have the same % of spans managed as a DNSP with a large number of spans. For example CitiPower has significantly fewer spans to manage than Powercor Australia and Powercor Australia consequently incurs substantially greater costs. However on a percentage basis there is very little difference between the two networks.</p> <p>The reference to cutting cycles is unclear. Are spans counted once or twice if they are cut in one year cycle? What if they are managed in 3 year cycles? The Businesses manage some spans over a 3 year period.</p> <p>Due to outsourcing of vegetation management information on spans cut or inspected will only be available for CitiPower from 2008 and Powercor Australia from 2005.</p>

5 CONCLUDING REMARKS

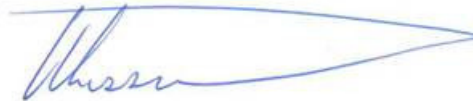
The Businesses appreciate the opportunity to make this submission to the AER on the Revised draft data list for economic benchmarking. We look forward to engaging further with the AER on the Draft RIN for economic benchmarking when it is released in September 2013.

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



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