2013 AER RIN - Schedule 1 Response POWERCOR AUSTRALIA

1. GENERAL		
Item	**AER Requirements**	**Powercor Response to AER**
1.1(a)	The Regulatory Accounting Statements, being the information required in the worksheets in the Microsoft Excel workbook attached at Appendix B;	Please refer to accompanying Appendix B Templates 1-34
1.1(b)	the non-financial information required in the worksheets in the Microsoft Excel workbook attached at Appendix C that has not been previously provided to the AER in response to the Information Specification (Service Performance) for the Victorian Electricity Distributors for the year 2011;	Please refer to accompanying Appendix C Templates 1a-6c
1.1(c)	a Microsoft Excel workbook that reconciles and explains adjustments between the Statutory Accounts and the Regulatory Accounting Statements	Please refer to "Attachment 1 – 1.1(c) Stat to Reg Powercor 2013"
1.1(d)	the Regulatory Accounting Principles and Policies and the Capitalisation Policy: (i) for the current Relevant Regulatory Year; and (ii) the previous Relevant Regulatory Year which was either previously provided in the response to paragraph 1.1(d)(i) or if the previous Relevant Regulatory Year is 2010, as required by Guideline 3.	Please refer to "Attachment 2 – 1.1(d) Regulatory Accounting Principles and Policies PAL"
1.1(e)	a statement of the policy for determining the allocation of overheads in accordance with the *Cost Allocation Method*: (i) for the current Relevant Regulatory Year; and (ii) the previous Relevant Regulatory Year which was either previously provided in the response to paragraph 1.1(e)(i) or if the previous Relevant Regulatory Year is 2010, as required by Guideline 3.	Overhead rates are applied by the SAP system to directly attributable costs for corporate, network, system control and fleet and property labour and service costs which are, in accordance with Powercor Australia's statutory accounting policies, attributable to the function of preparing an asset ready for use or of maintaining an asset. The network overhead pool is sourced from costs which are shared and allocated between CitiPower and Powercor as described in section 11.3 of Powercor's Cost Allocation Methodology.
1.2	Identify all changes between the Regulatory Accounting Principles and Policies provided in the response to paragraphs 1.1(d).	There are no changes between the Regulatory Accounting Principles and Policies provided in the response to paragraphs 1.1(d).

1.3	For each change identified in the response to paragraph 1.2: (a) explain the nature of and the reasons for the change; and (b) quantify the effect of the change on the Regulatory Accounting Statements for the current Relevant Regulatory Year	There are no changes between the Regulatory Accounting Principles and Policies provided in the response to paragraphs 1.1(d).
1.4	For each of the following items, identify each material difference (where the difference is equal to or greater than 10%) between that reported in the Regulatory Accounting Statements and that provided for in the 2011–15 Distribution Determination: (a) total actual revenue and total forecast revenue; (b) total actual operating expenditure and total forecast operating expenditure; (c) total actual capital expenditure and total forecast capital expenditure; and (d) total actual energy sales and total forecast energy sales.	(a) The difference between the total actual revenue and total forecast revenue is not material. (b) The difference between the total actual operating expenditure and total forecast operating expenditure is not material. (c) The difference between total actual capital expenditure and total forecast capital expenditure is not material. (see table below) (d) The difference between total actual demand and total forecast demand is not material.
1.5	Explain the reasons for any underlying operational activities or drivers that caused each material difference identified in the response to paragraph 1.4.	<u>Capital Expenditure</u> *Reinforcements:* Expenditure is less than that forecast at the 2011-15 EDPR Final Determination as a result of:

Category	**Variance**
Reinforcements	(54.2%) / ($31.0M)
New Customer Connections	(9.8%) / ($13.1M)
Reliability & Quality Maintained	40.9% / $14.4M
Environmental, Safety & Legal	19.4% / $11.7M
SCADA Network Control	(39.4%) / ($1.8M)
Non network general assets - IT	(42.6%) / ($7.8M)
Non network general assets - Other	(33.4%) / ($5.1M)
Customer contributions	(25.0%) / ($11.4M)
TOTAL	(7.6%) / ($21.2M)

		1. Stage 2 works of the Bendigo to Charlton 66kV line upgrade have been held up by a legal dispute between Council and the easement landowner. 2. Council planning approval delays and flood mitigation issues has delayed the development of the new Armstrong Creek residential and Industrial areas. A number of augmentation projects have been affected. Timing of the new Torquay zone substation has moved out to 2018 due to a slower than anticipated growth in key development areas. 3. [redacted] *Reliability & Quality Maintained/Environment, Safety & Legal:* Unplanned replacement activity, primarily in lines assets, arising from conditions assessments has significantly exceeded Determination volumes. Increased zone substation refurbishment expenditure due primarily to deterioration faster than the timing assumed in the Determination. These increased expenditures were in part offset by lower expenditure on proactive conductor replacement. *IT/SCADA & General:* Expenditure is down from that forecast at the 2011-15 EDPR largely due to a delay in the project to replace the Customer Information System (CIS) which is now delayed while regulatory obligations are determined. Other project expenditure is contingent on completion of the Smart Meter rollout and therefore is greater toward the end of the period.
1.6	Identify all changes between the statement of the policy for determining the allocation of overheads in accordance with the *Cost Allocation Method* provided in the response to paragraphs 1.1(e).	There are no changes between the statement of the policy for determining the allocation of overheads in accordance with the *Cost Allocation Method* provided in the response to paragraphs 1.1(e).
1.7	For each change identified in the response to paragraph 1.6, (a) explain the nature of and the reasons for the change; and (b) quantify the effect of the change on the Regulatory Accounting Statements for the current Relevant Regulatory Year.	There are no changes between the statement of the policy for determining the allocation of overheads in accordance with the *Cost Allocation Method* provided in the response to paragraphs 1.1(e).
2. COST ALLOCATION		
2.1	2.1 Identify each Item in the Regulatory Accounting Statements that is: (a) allocated on a directly attributable basis to Powercor; (b) not allocated on a directly attributable basis but is allocated on a	Where items in the Regulatory Accounting Statements have been allocated, these have been identified in Template 17. Shared Cost Allocation and the work papers accompanying Template 1. Income Statement.

	causation basis to Powercor; or (c) not allocated on a directly attributable basis and cannot be allocated on a causation basis to Powercor.	
2.2	For each Item identified in the response to paragraphs 2.1(b): (a) state the quantum of the item that has been allocated; (b) explain the method of allocation and reasons for choosing that method; and (c) state the numeric quantum of the allocator(s) used.	Please refer to CAM and work papers accompanying the Regulatory Accounts.
2.3	For each Item identified in the response to paragraph 2.1(c): (a) state its quantum; (b) state whether it was material; (c) explain the method of allocation and reasons for choosing that method; and (d) explain the reason(s) why it cannot be allocated on a causation basis.	Please refer to CAM and work papers accompanying the Regulatory Accounts.
2.4	State that each Item has been identified and allocated according to the approved Cost Allocation Method, that is: (a) an Operating Cost or a Maintenance Cost and is allocated to an Activity Area in part on a directly attributable basis or on a causation basis or both consistent with the approved Cost Allocation Method; or (b) a Fixed Asset and is allocated to an Asset Category in part on a directly attributable basis or on a causation basis or both consistent with the approved Cost Allocation Method.	Please refer to CAM and work papers accompanying the Regulatory Accounts.
3. RELATED PARTY TRANSACTIONS		
3.1	Identify each Related Party to which a transaction has been conducted.	Please refer to Appendix B – Template 26 “Related party transactions”
3.2	Identify each transaction for an amount greater than $500,000 relating to the provision of *standard control services*, *alternative control services, Advanced Metering Infrastructure or negotiated distribution services* between Powercor and a Related Party.	Please refer to Appendix B – Template 26 “Related party transactions”
3.3	For each transaction identified in the response to paragraph 3.2: (a) state the name of the Related Party; (b) identify any other counter parties involved;	Please refer to Appendix B – Template 26 “Related party transactions”

	(c) explain the nature and purpose of the transaction, including the good(s) or service(s) provided by the Related Party; (d) state the actual costs incurred by the Related Party in providing good(s) or services(s), not including any profit margin or management fee incurred by Powercor; (e) explain how the actual costs of the good(s) or service(s) incurred was determined; (f) explain how the actual costs of the good(s) or service(s) incurred is reflected in the Regulatory Accounting Statements; (g) identify the Asset Category, Maintenance Cost category or Operating Cost category to which the actual cost(s) is allocated to; and (h) explain the basis upon which the actual costs of the good(s) or service(s) was or were allocated, as identified in the response to paragraph (f), and state the quantum of any allocator applied.	
4. EFFICIENCY BENEFIT SHARING SCHEME		
4.1	Identify all changes between the Capitalisation Policy Statements provided in the response to paragraph 1.1(d).	There are no changes to the Capitalisation Policy Statements provided in response to paragraph 1.1(d).
4.2	For each change identified in the response to paragraph 4.1: (a) state, if any, the financial impact of the change; (b) state the reasons for the change; (c) explain the effect of the change, if any, on the actual operating expenditure and actual capital expenditure incurred, in comparison to the forecast operating expenditure and forecast capital expenditure determined in the 2011–15 Distribution Determination during the Relevant Regulatory Year; and (d) explain the effect of the change, if any, on the actual operating expenditure and actual capital expenditure incurred, in comparison to the previous Relevant Regulatory Year.	There are no changes to the Capitalisation Policy Statements provided in response to paragraph 1.1(d).
5. DEMAND MANAGEMENT INCENTIVE ALLOWANCE		
5.1	Identify each demand management project or program which Powercor seeks approval of.	Boundary Bend Generation 2012/13 Summer
5.2	For each demand management project or program identified in the response to paragraph 5.1:	**(a) Explanation** (i) The project has the effect of deferring capital expenditure, providing

	(a) explain: (i) how it complies with the Demand Management Incentive Allowance criteria set out at section 3.1.3 of the *demand management incentive scheme*; (ii) its nature and scope; (iii) its aims and expectations; (iv) the process by which it was selected, including its business case and consideration of any alternatives; (v) how it was/is to be implemented; (vi) its implementation costs; and (vii) any identifiable benefits that have arisen from it, including any off peak or peak demand reductions. (b) state whether its associated costs are: (i) not recoverable under any other jurisdictional incentive scheme; (ii) not recoverable under any other Commonwealth or State Government scheme; and (iii) not included in the forecast capital or operating expenditure approved in the 2011–15 Distribution Determination or recoverable under any other incentive scheme in that determination (such as the D–factor scheme for NSW); and (c) explain any assumptions and/or estimates used in the calculation of forgone revenue, demonstrating the reasonableness of those assumptions and/or estimates in calculating forgone revenue, including the reasons for Powercor's decision to adjust or not to adjust for other factors and the basis for any such adjustments.	operational and planning learning and can be redeployed in other locations and times (ii) The project is a network support project which was deployed to inject electrical power into the BBD 21 22kV feeder in the Boundary Bend Network in North Western Victoria. The project included 2x1250kVA and 2x350kVa portable generators and included supply and lease of equipment, labour and fuel. (iii) The aims and expectations of the project were to gain experience and operational capability. The Feeder was subjected to unusually high and unpredictable loading due the ending of the drought conditions in the area. Irrigators who had been very constrained from lack of water were allocated large amounts of water following excess rain. Their response was to pump at full capacity whenever they were allocated and this put a once off high demand on the feeder. The project was initiated to enable deferment of the requirement of a $6.8M augmentation enabling transfer of load between BBD 14 and BBD 21 by 6-12 months. It should be noted that the nature of the demand on this part of the network can be very low for several years when rainfall is at or below normal and this makes the trend volatile. (iv) the process for selection involved consideration of options over a short period of time including demand management, network augmentation and network support. The demand management option was considered against customer requirements and previous experience and considered that irrigation was a very high priority and DM at this point would be inflexible and difficult to coordinate. Augmentation in the short term was more expensive and compared with rapidly deployable portable generation a cost and completion scenario favoured network support. (v) Project was implemented in January to March 2014 with 2x1250kVA and 2x350kVa portable generators. Remote control techniques and remote monitoring was tested to reduce fuel and labour costs while improving response. (vi) The implementation costs were $189,000 and spent during the summer months (vii) Benefits included deferral of the augmentation of $6.8M by 6-12 months, remote control techniques and remote monitoring was tested to reduce fuel and labour costs while improving response. The deployment and decommissioning time was rapid and set standards and guidelines for future deployments. **(b) statement as to whether its associated costs are:** (i) the costs were not recoverable under any other jurisdictional incentive scheme;

		(ii) the costs were not recoverable under any other Commonwealth or State Government scheme; and (iii) the costs were not not included in the forecast capital or operating expenditure approved in the 2011–15 Distribution Determination or recoverable under any other incentive scheme in that determination (such as the D–factor scheme for NSW); and **(c) explain any assumptions and/or estimates used in the calculation of forgone revenue:** The location of the connection point of the project is on the network side of customers' meters. Therefore there was no need for consideration of foregone revenue.
5.3	State the total amount of the Demand Management Incentive Allowance spent in the Relevant Regulatory Year and explain how it was calculated	The Demand Management Incentive Allowance amount spent in the 2013 Regulatory Year was $189,000 and was calculated based on actual costs of supply and lease of equipment, labour and fuel.
6. ADVANCED METERING INFRASTRUCTURE		
6.1	Provide a description and estimate of all efficiency improvements on the operations of Powercor directly or indirectly arising from or associated with the roll out of the Advanced Metering Infrastructure. For example: operational cost savings for Powercor arising from remote meter reading and connection and disconnection of customers' supplies; more efficient outage detection and rectification; improved accuracy of customer billing.	1. Avoided non AMI meter supply cost for new connections and meter replacements -$2,385,258 2. Avoided non AMI meter supply & installation cost for fault meter replacements - $338,416 3. Avoided cost of time switch replacement - $657,775 4. Avoided non AMI meter replacements resulting from solar installations - $5,618,898 5. Avoided cost of routine non AMI meter reading - $3,149,820 6. Avoided cost of non AMI special reads - $502,941
6.2	For each efficiency improvement identified in the response to paragraph 6.1: (a) explain how it arises from or is associated with the roll out of the Advanced Metering Infrastructure; and (b) if quantifiable, state its quantum.	(a) An explanation of how the above costs are associated with the roll out of the Advanced Metering Infrastructure is as follows: 1. Meter Supply for new connections and meter replacements – accumulation meter supply - the meter supply cost for accumulation meters that would have been supplied if AMI meters hadn't been used. 2. Meter supply and installation cost for fault meter replacements – the meter supply and installation cost for meters that would have been replaced under fault conditions if new AMI meters hadn't been installed via the rollout.

		3. Time switch replacements – the number of time switches that would have been replaced if new AMI meters hadn't been installed via the rollout. 4. Solar Meter replacements / Meter Reconfiguration - the number of manually read interval meters that would have been installed (replacing accumulation meters) for solar installations. Under the AMI Program, existing AMI meters have been reconfigured for solar installations, avoiding the cost of the meter replacement. 5. Meter reading - the avoided cost to manually read type 5 and type 6 meters as a result of meters now being read remotely. 6. Special reading - the avoided cost to manually read type 5 and type 6 meters for re-energisation and de-energisation of type 5 and type 6 meters as a result of meters now being read remotely.
7. SAFETY AND BUSHFIRE RELATED EXPENDITURE		
7.1	For each safety and bushfire related expenditure, specify and define the relevant asset category to which it relates.	Please refer to Appendix B Template 27 "Safety and Bushfire Related Expenditure
7.2	Identify each material difference (where the difference is equal to or greater than 10%), in relation to the asset categories specified in the response to paragraph 7.1, between: (a) actual and forecast volumes; (b) actual and forecast expenditure; and (c) actual and forecast unit costs.	Please refer to Appendix B Template 27 "Safety and Bushfire Related Expenditure
7.3	Provide reasons for each material difference (where the difference is equal to or greater than 10%) identified in the response to paragraph 7.2.	Please refer to Appendix B Template 27 "Safety and Bushfire Related Expenditure
8. NON-FINANCIAL PERFORMANCE MONITORING INFORMATION		
8.1	Explain all material differences (where the difference is equal to or greater than 10%) between the target performance measure specified in the *service target performance incentive scheme* and actual performance reported in the response to paragraph 1.1(b).	<u>(a) Template 1a. STPIS Reliability</u> Powercor Australia generally performed better than the AER targets with the exception of Urban & Rural Long USAIDI (i.e. unplanned SAIDI). The main causes for the negative performance in Powercor's Urban & Rural Long network was due to interruptions caused by equipment failure, bad weather conditions such as storms, vegetation contact with power lines and animals shorting out

<table>
<tr><td></td><td></td><td>power lines.

POWERCOR

		AER Target	Actual	Var (%)
Urban	USAIDI	82.467	96.968	(18%)
	USAIFI	1.263	1.111	12%
	MAIFI	1.412	1.142	19%
Rural - Short	USAIDI	114.807	96.616	16%
	USAIFI	1.565	1.124	28%
	MAIFI	2.881	2.731	5%
Rural - Long	USAIDI	233.759	251.735	(8%)
	USAIFI	2.54	2.287	10%
	MAIFI	6.535	4.765	27%

<u>(b) Template 1b. STPIS Customer Service – Table 1: Telephone answering</u>
The contact centre achieved greater than 10% variance to the AER target for Powercor. While telephone answering performance was significantly below the AER target at the end of Quarter 1 2013, performance improved with strong results achieved in Quarters 2-4, which was supported by 37% lower call volumes for the period September – December 2013 than in the same period in 2012.

<u>(c) Template 1b. STPIS Customer Service – remainder of tables</u>
All the other customer service STPIS parameters in template 1b, i.e. new connections and streetlight repair have no target performance measures, and hence no comments are required.

<u>(d) STPIS Templates 1c. to 1e.</u> (I.e. Daily performance, MED Thresholds and Exclusions) have no specific target performance measures specified in the STPIS, and hence no comments are required.</td></tr>
<tr><td colspan="3">9. CHARTS</td></tr>
<tr><td>9.1</td><td>Provide a chart that sets out:
(a) the group corporate structure which Powercor is a part of; and</td><td>(a) Please refer to “Attachment 3 – 9.1(a) PAL Group Corporate Structure Inc Spark.doc”</td></tr>
</table>

	(b) the organisational structure of Powercor.	(b) Please refer to "Attachment 4 – 9.1(b) Executive Management Team Dec 2013.pdf"
10. AUDIT REPORTS		
10.1	Provide a Regulatory Audit Report in the form of: (a) a Special Purpose Financial Report in accordance with the requirements set out at Appendix E; and (b) an Audit Report (for non financial information) in accordance with the requirements set out at Appendix E. Note: an example of a Special Purpose Financial Report is provided in Appendix F.	Please refer to "Attachment 5 – 10.1(a) Audit Report (Financial Information) Powercor.pdf" and Attachment 6 – 10.1(b) Audit Report (Non- Financial Information) Powercor.pdf"
10.2	Provide all reports from the Auditor to Powercor's management regarding the audit review and/or auditors' opinions or assessment.	As per 10.2
11. BOARD RESOLUTION		
11.1	Provide an extract from the board minutes or a resolution agreed to at a Powercor board meeting that confirms that, to the best of the Board's information, knowledge and belief: (a) the information provided in the response to paragraph 1.1(a) (being the information to be provided in the workbook attached at Appendix B) is true and fair; and (b) the *service target performance incentive scheme* information provided in the response to paragraph 1.1(b) (being the information to be provided in templates 1(a)-(e) of the workbook attached at Appendix C) is true and fair.	Please refer to "Attachment 7 - 11.1 Powercor Australia Resolution RIN 2013 Information.pdf "