

**2016 AER Annual RIN – CITIPOWER Schedule 1 Response**

Item	AER Requirements	Response
<b>1. INFORMATION TEMPLATES</b>		
1.1(a)	Provide the information required in the Financial Information Templates in the Microsoft Excel workbook attached at Appendix B; as issued by the AER on the 12 <sup>th</sup> December 2016.	Please refer to accompanying Appendix B Templates 2.11, 4.1, 7.8, 7.10, 7.11, 7.12, 7.13, 8.1, 8.2, 8.4 and 9.5.)
1.1(b)	Provide the information required in the Non-Financial Information Templates in the Microsoft Excel workbook attached at Appendix B; as issued by the AER on the 3 <sup>rd</sup> of February 2016.	Please refer to accompanying Appendix B Templates 3.6, 3.6.8, 3.6.9, 6.2, 6.6, 6.7, 6.8 and 6.9.
1.1(c)	Provide a Microsoft Excel workbook or other information that reconciles and explains Adjustments between the Audited Statutory Accounts and the Financial Information Templates. CitiPower must separately list each Adjustment made to derive the Financial Information Templates. For each Adjustment made: (i) specify the amount of the Adjustment; (ii) describe the nature and basis of each Adjustment	Please refer to “Attachment 1 – 1.1(c) Stat to Reg CitiPower 2016
1.1(d)	Provide a Basis of Preparation which must, for all information provided in Appendix B: (i) demonstrate how the information provided is consistent with the requirements of this Notice; (ii) explain the source from which CitiPower obtained the information; (iii) explain the methodology CitiPower applied to provide the required information, including any assumptions CitiPower made; (iv) explain, in circumstances where CitiPower cannot provide Actual Information: 1) why it was not possible for CitiPower to provide Actual Information;	Please refer to accompanying Basis of Preparation documents

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	<p>2) what steps CitiPower is taking to ensure it can provide the information in the future;</p> <p>3) if an estimate has been provided, the basis for the estimate, including the approach used, assumptions made and reasons why the estimate is CitiPower’s best estimate, given the information sought in this notice</p>	
1.1(e)	Provide the Regulatory Accounting Principles and Policies for the Relevant Regulatory Year.	Please refer to “Attachment 2 – 1.1(e) and (f) Stat to Reg CitiPower 2016”
1.1(f)	Provide the Capitalisation Policy for the Relevant Regulatory Year.	Please refer to “Attachment 2 – 1.1(e) and (f) Stat to Reg CitiPower 2016”
1.1(g)	Provide a statement of policy for determining the allocation of overheads in accordance with the approved Cost Allocation Method for the Relevant Regulatory Year	Overhead rates are applied by the SAP system to directly attributable costs for network, system control and fleet and property labour and service costs which are, in accordance with our 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 our Cost Allocation Method.
1.2	<p>Identify all material changes between the Regulatory Accounting Principles and Policies provided in the response to paragraphs 1.1(e), for the Relevant Regulatory Year and the previous regulatory year. For each change identified:</p> <p>(a) explain the nature of and the reasons for the change; and</p> <p>(b) quantify the effect of the change on information in the Financial Information Templates for the Relevant Regulatory Year.</p>	There are no changes between the Regulatory Accounting Principles and Policies provided in response to paragraphs 1.1(e).
1.3	Identify all material changes between the statements of the policy for determining the allocation of overheads in accordance with the approved Cost Allocation Method, for the Relevant Regulatory Year and the previous regulatory year. For each	CitiPower in the 2016 RINs no longer allocates corporate overheads to capital expenditure. All corporate overheads now remain in operating expenditure. This change is consistent with the treatment of corporate overheads in CitiPower’s statutory accounts. This change was approved by the AER in

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	change identified: (a) explain the nature of and the reasons for the change; and (b) quantify the effect of the change on information in the Financial Information Templates for the Relevant Regulatory Year.	CitiPower’s 2016-20 distribution determination and in CitiPower’s revised Cost Allocation Method which applied from 1 January 2016. Capitalised corporate overheads were reported in CitiPower’s 2015 Category Analysis RIN, which allows for the quantified effect of the change to be identified.																										
1.4	If CitiPower has previously provided the AER with the policies sought in paragraphs 1.1(e), (f) or (g) it is not necessary for CitiPower to provide each policy again unless it identified a material change in response to paragraphs 1.2, 1.3, or 5.1.	Please refer to the relevant sections.																										
1.5	Identify each difference (where the difference is equal to or greater than ± 10 per cent) between the amount reported in the Financial Information Templates and the amount provided for in the 2016-20 Distribution Determination for the following: (a) total actual operating expenditure and total forecast operating expenditure; and (b) total actual capital expenditure and total forecast capital expenditure.	(a) The difference between the total actual operating expenditure and total forecast operating expenditure is as follows: <table border="1" data-bbox="1039 699 1822 846"> <thead> <tr> <th>Category</th> <th>Variance</th> </tr> </thead> <tbody> <tr> <td>Maintenance</td> <td>(22.3%) / (\$6.8M)</td> </tr> <tr> <td>Operating</td> <td>(4.4%) / (\$2.2M)</td> </tr> <tr> <td><b>TOTAL</b></td> <td><b>(11.1%) / (\$9.1M)</b></td> </tr> </tbody> </table> (b) The difference between the total capital expenditure and total forecast operating expenditure is as follows: <table border="1" data-bbox="1039 979 1822 1370"> <thead> <tr> <th>Category</th> <th>Variance</th> </tr> </thead> <tbody> <tr> <td>Augex</td> <td>(50.6%) / (\$22.8M)</td> </tr> <tr> <td>Repex</td> <td>(58.6%) / (\$28.8M)</td> </tr> <tr> <td>Gross Connections</td> <td>8.0% / \$5.8M</td> </tr> <tr> <td>VBRC</td> <td>(100.0%) / (\$0.7M)</td> </tr> <tr> <td>Non-network general assets - IT</td> <td>(40.9%) / (\$8.9M)</td> </tr> <tr> <td>Non-network general assets - other</td> <td>719.5% / \$24.4M</td> </tr> <tr> <td>Customer Contributions</td> <td>35.6% / \$11.6M</td> </tr> <tr> <td><b>TOTAL</b></td> <td><b>(26.5%) / (\$42.5M)</b></td> </tr> </tbody> </table>	Category	Variance	Maintenance	(22.3%) / (\$6.8M)	Operating	(4.4%) / (\$2.2M)	<b>TOTAL</b>	<b>(11.1%) / (\$9.1M)</b>	Category	Variance	Augex	(50.6%) / (\$22.8M)	Repex	(58.6%) / (\$28.8M)	Gross Connections	8.0% / \$5.8M	VBRC	(100.0%) / (\$0.7M)	Non-network general assets - IT	(40.9%) / (\$8.9M)	Non-network general assets - other	719.5% / \$24.4M	Customer Contributions	35.6% / \$11.6M	<b>TOTAL</b>	<b>(26.5%) / (\$42.5M)</b>
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1.6	Explain the reasons for each difference identified in the response to paragraph 1.5.	<p><u>Operating expenditure</u>  <i>Maintenance:</i> Expenditure is less than forecast expenditure due to efficiencies realised in line maintenance, zone substation maintenance and asset inspection.</p> <p><i>Operating:</i> Expenditure is less than forecast expenditure due to efficiencies realised in customer service functions.</p> <p><u>Capital expenditure</u>  <i>Augex:</i> Expenditure is less than forecast at the 2016-20 Distribution Determination as a result of the Waratah Place redevelopment (part of the CBD Security of Supply Upgrade project) delayed due to legal issues with the proposed underground cable tunnel. This has pushed expenditure into following years.</p> <p><i>Repex:</i> Expenditure is less than forecast at the 2016-20 Distribution Determination as a result of:  1. Business improvements in 2016 from enhancements to asset condition assessments; and  2. The Waratah Place building construction works were delayed due to legal issues with the proposed underground cable tunnel moving, expenditure into following year.</p> <p><i>Gross Connections:</i> The 2016 actual mix of projects was different to the assumed mix in the AER Allowance, which was based on an average of recent years Connections expenditure and Contributions.</p> <p><i>VBRC:</i> Multi Circuit Surveys were included in the 2016 Allowance, and will be carried out in 2017 and beyond.</p> <p><i>Non-network general assets – IT:</i> Expenditure is less than forecast mainly due to the deferral of CRM and billing projects, coupled with technological innovation and synergies resulting in change of solution approach at a lower</p>

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		<p>cost.</p> <p><i>Non-network general assets – Other:</i> Expenditure is higher than forecast at the 2016-20 Distribution Determination, which was based on the 2011-2014 average, as a result of:</p> <ol style="list-style-type: none"> <li>1. Allowance not allowing for the purchase of Montague Street zone substation.</li> </ol> <p><i>Customer contributions:</i> See gross connections.</p>																																									
1.7	Identify each difference (where the difference is equal to or greater than ± 10 per cent) 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).	<p>We are rewarded or penalised under the service target performance incentive scheme (STPIS) which covers our reliability performance and telephone response.</p> <p>Actual STPIS outcomes versus the AER targets are set out in the table below:</p> <table border="1" data-bbox="1037 764 1913 1078"> <thead> <tr> <th colspan="5" data-bbox="1037 764 1913 800">CitiPower - 2016</th> </tr> <tr> <th colspan="2" data-bbox="1037 800 1388 836">Measure</th> <th data-bbox="1388 800 1564 836">AER Target</th> <th data-bbox="1564 800 1738 836">Actual</th> <th data-bbox="1738 800 1913 836">Variance (%)</th> </tr> </thead> <tbody> <tr> <td data-bbox="1037 836 1213 938" rowspan="3">CBD</td> <td data-bbox="1213 836 1388 872">USAIDI</td> <td data-bbox="1388 836 1564 872">9.130</td> <td data-bbox="1564 836 1738 872">9.311</td> <td data-bbox="1738 836 1913 872">2%</td> </tr> <tr> <td data-bbox="1213 872 1388 907">USAIFI</td> <td data-bbox="1388 872 1564 907">0.129</td> <td data-bbox="1564 872 1738 907">0.135</td> <td data-bbox="1738 872 1913 907">5%</td> </tr> <tr> <td data-bbox="1213 907 1388 943">MAIFI</td> <td data-bbox="1388 907 1564 943">0.005</td> <td data-bbox="1564 907 1738 943">0.000</td> <td data-bbox="1738 907 1913 943">-99%</td> </tr> <tr> <td data-bbox="1037 943 1213 1045" rowspan="3">Urban</td> <td data-bbox="1213 943 1388 979">USAIDI</td> <td data-bbox="1388 943 1564 979">32.696</td> <td data-bbox="1564 943 1738 979">27.824</td> <td data-bbox="1738 943 1913 979">-15%</td> </tr> <tr> <td data-bbox="1213 979 1388 1015">USAIFI</td> <td data-bbox="1388 979 1564 1015">0.484</td> <td data-bbox="1564 979 1738 1015">0.411</td> <td data-bbox="1738 979 1913 1015">-15%</td> </tr> <tr> <td data-bbox="1213 1015 1388 1050">MAIFI</td> <td data-bbox="1388 1015 1564 1050">0.152</td> <td data-bbox="1564 1015 1738 1050">0.141</td> <td data-bbox="1738 1015 1913 1050">-7%</td> </tr> <tr> <td colspan="2" data-bbox="1037 1050 1388 1078">Telephone Answering (%)</td> <td data-bbox="1388 1050 1564 1078">75.32</td> <td data-bbox="1564 1050 1738 1078">87.57</td> <td data-bbox="1738 1050 1913 1078">12.25</td> </tr> </tbody> </table>	CitiPower - 2016					Measure		AER Target	Actual	Variance (%)	CBD	USAIDI	9.130	9.311	2%	USAIFI	0.129	0.135	5%	MAIFI	0.005	0.000	-99%	Urban	USAIDI	32.696	27.824	-15%	USAIFI	0.484	0.411	-15%	MAIFI	0.152	0.141	-7%	Telephone Answering (%)		75.32	87.57	12.25
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1.8	Explain the reasons for each difference identified in the response to paragraph 1.7.	<p><u>Reliability</u></p> <p>We outperformed against the AER targets for CBD MAIFI and Urban USAIDI (i.e. unplanned SAIDI) and Urban USAIFI (i.e. unplanned SAIFI) achieving a greater than 10% variance to the AER target. Favourable weather conditions and a reduction in faults caused by animals shorting out powerlines contributed to the performance result.</p> <p><u>Telephone answering</u></p> <p>Our contact centre achieved greater than 10% variance to AER target. Favourable weather conditions, the continued use of alternative digital</p>																																									

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		communication strategies and improved messaging capabilities resulted in a reduction of total annual calls of 10% on the previous year. The continuation of low call volumes resulted in an increase in annual GOS
<b>2. COMPLIANCE</b>		
2.1	Explain the procedures and processes used by CitiPower to ensure that the distribution services have been classified as determined in the 2016-20 Distribution Determination.	Please refer to our Cost Allocation Method and Basis of Preparation documents.
2.2	Explain the procedures and processes used by CitiPower to ensure that the negotiated distribution service criteria, as set out in the 2016-20 Distribution Determination, have been applied.	<p>Negotiated services are:</p> <ul style="list-style-type: none"> <li>• Alteration and relocation of public lighting assets</li> <li>• New public lighting assets at greenfield sites</li> <li>• New lighting types not subject to an existing regulated charge</li> <li>• Reserve feeder construction</li> </ul> <p>Customer requests for negotiated services are treated in a similar way to a customer request for supply or to relocate assets. The request is negotiated based on our network policies and all offers to customers are based on standard customer agreements in line with the negotiating framework approved by the AER.</p> <p>The timeframes to provide offers are monitored and reported annually to our Risk and Compliance Committee and Regulation team.</p>
2.3	Describe the process CitiPower has in place to identify negative change events under clause 6.6.1(f) of the NER and the materiality threshold applied to these events.	We continuously scan for regulatory change events, service standard events, tax change events and retailer insolvency events. If a negative change event occurs, we will estimate the resulting incremental standard control service cost saving. If the estimated incremental cost saving is greater than one per cent of annual standard control revenue, we will notify the AER within 90 business days of becoming aware of the occurrence of the negative change event.
2.4	Describe the process CitiPower has in place to monitor	CitiPower have in place a long standing economic compliance program based

Item	AER Requirements	Response
(new)	<p>compliance with the Essential Services Commission of Victoria, Electricity Industry Guideline No.17: Electricity Ring-fencing Issue 1, October 2004 (or any Ring-fencing Guideline the AER may develop under clause 6.17.2 of the NER). List all instances of non-compliance, including the date of non-compliance event, reason for non-compliance, impact on customers, impact on competitors, and any remedial action taken by CitiPower.</p>	<p>around an annual survey of responsible managers. Electricity Industry Guideline No. 17 has for many years been included in this survey and to date has never been identified as an area of non-compliance.</p> <p>In terms of the new AER ring fencing guideline, a project team has been established within the business to transition the business to compliance. We have been through a first pass and identified areas where we either need to seek a waiver under the guideline or put in place controls/training to ensure compliance. To date no areas of current non-compliance have been identified and in any event, the AER has permitted businesses until 2018 to reach full compliance.</p> <p>In March we will commence negotiating waivers with the AER and following from that we will finalise our compliance program to be rolled out over the rest of the Business through 2017.</p>
<b>3. COST ALLOCATION TO THE DISTRIBUTION BUSINESS</b>		
3.1	<p>Identify each expenditure or revenue item in Worksheet 8.1 of the Financial Information Templates that is directly attributable to the Distribution Business.</p>	<p>Each expenditure or revenue item in Worksheet 8.1 of the Financial Information Templates that is directly attributable to the Distribution Business has been identified.</p>
3.2	<p>Identify each Item in the Financial Information Templates that is:</p> <ul style="list-style-type: none"> <li>(a) not directly attributable but is allocated on a causation basis to the Distribution Business; and</li> <li>(b) not directly attributable and cannot be allocated on a causation basis to the Distribution Business</li> </ul>	<p>Please refer to the Cost Allocation Method.</p>
3.3	<p>For each Item identified in the response to paragraph 3.2(a):</p> <ul style="list-style-type: none"> <li>(a) state the amount of the item that has been allocated;</li> <li>(b) explain the method of allocation and reasons for choosing that method; and</li> <li>(c) state the numeric amount of the allocator(s) used.</li> </ul>	<p>Please refer to the Cost Allocation Method.</p>
3.4	<p>For each Item identified in the response to paragraph 3.2(b):</p>	<p>Please refer to the Cost Allocation Method.</p>

Item	AER Requirements	Response
	(a) state the amount of the Item and whether it was material; (b) explain the method of allocation and reasons for choosing that method; and (c) explain the reason(s) why it cannot be allocated on a causation basis.	
<b>4. COST ALLOCATION TO SERVICE SEGMENTS</b> <i>Note: service segment refers to standard control services, alternative control services and negotiated services.</i>		
4.1	Identify each Item in the Financial Information Templates that is: (a) directly attributable from the Distribution Business to a service segment; (b) not directly attributable but is allocated on a causation basis from the Distribution Business to a service segment; and (c) not directly attributable and cannot be allocated on a causation basis from the Distribution Business to a service segment.	Please refer to "Attachment 3 - 4.1 Income Statement Allocations CitiPower 2016"
4.2	For each Item identified in the response to paragraph 4.1(a): (a) state the amount of the Item that has been directly attributable to a service segment.	Please refer to "Attachment 3 - 4.1 Income Statement Allocations CitiPower 2016"
4.3	For each Item identified in the response to paragraph 4.1(b): (a) state the amount of the Item that has been allocated; (b) explain the method of allocation and reasons for choosing that method; and (c) state the numeric amount of the allocator(s) used.	Please refer to "Attachment 3 - 4.1 Income Statement Allocations CitiPower 2016"
4.4	For each Item identified in the response to paragraph 4.1(c): (a) state the amount of the Item and whether it was material; (b) explain the method of allocation and reasons for choosing that method; and (c) explain the reason(s) why it cannot be allocated on a causation basis	Please refer to "Attachment 3 - 4.1 Income Statement Allocations CitiPower 2016"

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<b>5. CAPITALISATION POLICY</b>		
5.1	Identify all material changes between the Capitalisation Policy for the Relevant Regulatory Year and the previous regulatory year.	There are no changes to the Capitalisation Policy
5.2	For each change identified in the response to paragraph 5.1: (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 2016-20 Distribution Determination for the Relevant Regulatory Year; and (d) explain the effect of the change, if any, on the actual operating and actual capital expenditure incurred, in comparison to the previous Relevant Regulatory Year.	There are no changes to the Capitalisation Policy
<b>6. DEMAND MANAGEMENT INCENTIVE ALLOWANCE</b>		
6.1	Identify each demand management project or program for which CitiPower seeks approval.	CitiPower have undertaken no projects in 2016 for which DMIA funding was sought.
6.2	For each demand management project or program identified in the response to paragraph 6.1: (a) explain: (i) how it complies with the Demand Management Innovation Allowance criteria detailed at section 3.1.3 of the demand management incentive scheme; (ii) its nature and scope; (iii) its aims and expected outcomes; (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,	As per 6.1 this section is not applicable

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	<p>including any off peak or peak demand reductions;</p> <p>(b) confirm that its associated costs are not:</p> <ul style="list-style-type: none"> <li>(i) recoverable under any other jurisdictional incentive scheme;</li> <li>(ii) recoverable under any other Commonwealth or State Government scheme; and</li> <li>(iii) included in the forecast capital or operating expenditure approved in the 2016-20 Distribution Determination or recoverable under any other incentive scheme in that determination; and:</li> </ul> <p>(c) state the total amount of the Demand Management Innovation Allowance spent in the Relevant Regulatory Year and how this amount has been calculated.</p>	
6.3	<p>Provide an overview of developments in relation to projects or programs completed in previous years of the regulatory control period, and of any results to date.</p> <p>Note: Information provided in response to paragraph 6 of Schedule 1 to this Notice will constitute the provision of an annual report for the purposes of paragraph 3.1.4.1 of the Demand Management Incentive Scheme applying to CitiPower (as set out in the 2016-20 Distribution Determination)</p>	<p>No DMIS projects were undertaken in 2016. Being the first year of the regulatory control period there is therefore no update to be provided</p>
<b>7. TAX STANDARD ASSET LIVES</b>		
7.1 (new)	<p>Identify all tax standard asset lives applied to asset classes that differ from those contained in the AER approved PTRM for CitiPower’s current regulatory control period.</p>	<p>There are no tax standard asset lives applied to asset classes that differ from those contained in the AER approved PTRM</p>
7.2 (new)	<p>Explain the reasons for each difference identified in paragraph 7.1 including reasons for any departure from the ATO’s most recent determination of effective life.</p>	<p>There are no tax standard asset lives applied to asset classes that differ from those contained in the AER approved PTRM</p>
<b>8. CHARTS</b>		

Item	AER Requirements	Response
8.1	Provide charts that set out: (a) the group corporate structure of which CitiPower is a part; and (b) the organisational structure of CitiPower.	(a) Please refer to “Attachment 4 – 8.1(a) CP Group Corporate Structure Inc Spark 2016”  (b) Please refer to “Attachment 5 – 8.1(b) CP Executive Management Team Dec 2016”
<b>9. AUDIT AND REVIEW REPORTS</b>		
9.1	Provide Audit Report and Review Report(s) in the form of: (a) An Audit Report (for Financial Information) in accordance with the requirements set out at Appendix D; and (b) A Review Report (for Non-Financial Information) in accordance with the requirements set out in Appendix D.	(a) Please refer to “Attachment 6 - 9.1(a) CitiPower Annual RIN 2016 Deloitte Audit Report (Financial)”.  (b) Please refer to “Attachment 7 – 9.1(b) CitiPower Annual RIN 2016 Deloitte Assurance Report (Non-financial)”.
<b>10. CONFIDENTIAL INFORMATION</b>		
10.1	If CitiPower makes a claim for confidentiality over any information provided in accordance with this Notice, CitiPower must: (a) comply with the requirements of AER’s Confidentiality Guideline, as if it extended and applied to responses to this Notice; (b) provide, in addition to a confidential version of any information, a version of the information that may be published by the AER.	We have claimed for confidentiality in relation to Related Party information in Appendix B Templates 2.11 Labour, 8.2 Capex and 8.4.2 Opex.  Please refer to “Attachment 8 – 10.1 AER Confidentiality Template - 2016 CP&PAL”.
10.2	Confirm in writing that CitiPower consents to the AER publically disclosing (including on the AER website) all information provided in accordance with this Notice, except the confidential version of information the subject of a confidentiality claim under paragraph 10.1.	We consent to the AER publically disclosing (including on the AER website) all information provided in accordance with this Notice, except the confidential version of information the subject of a confidentiality claim under paragraph 10.1.