

Chris Pattas  
General Manager – Network Operations and Development  
Australian Energy Regulator  
GPO Box 520  
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Dear Sir

**Re: Expenditure forecast assessment guidelines for electricity distribution and transmission issues paper.**

EA Technology provides a wide range of specialist services to the global NSP industry. These services include consultancy on strategic asset management of ageing networks and Smart Grids; surveying and monitoring of asset condition; failure investigation and analytical services; and supply of specialised instrumentation for condition assessment and fault location for cables and switchgear. We have supported a number of Australian NSP's in developing optimal asset replacement strategies and refurbishment plans and so have an interest in the current consultation regarding expenditure assessment techniques.

We welcome this opportunity to comment on the December, 2012, expenditure forecast assessment guidelines issues paper. In summary, it is our belief that the proposed use of economic benchmarking as an adjunct to more detailed forms of analysis, will be informative and enhance outcomes. We, however, have some comments and observations which we present as responses to specific questions below:

***Question 6. Are there any other principles that you think should be added to this list?***

We believe it appropriate that guidelines include broad principles to guide the selection of assessment techniques. While we generally agree with principles discussed in the issues paper, we would suggest the addition of principles addressing two following themes:

1. Recognition that different assessment approaches may yield materially different outcomes and that this possibility should be a consideration in selection. A principle could be added such that where differences are likely, that all relevant techniques should be applied with preference given to those with lower uncertainty. The intent of this principle would be to avoid the perception of any bias created through technique selection and to ensure that the best information is brought to bear to inform the AER's assessment.





2. Acknowledgement that selected assessment techniques should provide both short and long term views of how expenditure relates to service levels experienced by the consumer. We feel that it would be useful to include reference to the long term interests of consumers as a principle, to avoid the perception of techniques being selected that focus on evaluating costs in isolation from outputs, or those that may favor short term over long term decision making.

We would also like to comment on the application of Principle 4, which suggests the use of techniques that examine only changes to NSP's operating circumstances. For this approach to be valid, all material changes in a NSP's circumstances must be acknowledged and quantified, a task that may require a sound understanding of the NSP's specific future engineering and operating circumstances. For example, a regulatory period is a small fraction of the lifetime of many types of network assets. It is possible that benchmarked asset management approaches that are unchanged over a few regulatory periods could be found, with the benefit of hindsight, to be either inefficient (i.e. a lower level of activity would have delivered the same outcome) or not sufficiently effective (i.e. a higher level or different type of activity was actually required to deliver the required outcome). In recognition of this uncertainty, Ofgem have adopted output measures that go further than conventional network performance measures. In the RIIO framework, there are both "Primary Outputs" and "Secondary Deliverables". The Primary Outputs provide a current measure of the performance of the network and are a lagging indicator of the "fitness for purpose" of the asset management approach of an NSP. The Secondary Deliverables provide a leading indicator of the "fitness for purpose" of the asset management approach. We suggest, that when drafting the guidelines, consideration be given to including guidance that ensures that application of this principle, does not lead to the use of approaches that overly simplify analyses in the interests of expediency.

***Question 10. Do stakeholders agree that economic benchmarking will be an important adjunct to more detailed engineering assessments?***

We agree that economic benchmarking can provide important information to inform the AER as an adjunct to more detailed techniques. We are of the view however, that economic benchmarking on its own cannot reliably represent the many variables that affect an electricity distribution business, particularly in a time of rapid change in energy use and application of new network technologies. To this end, we see economic benchmarking being most useful as a reference to verify the holistic consistency of other more detailed forms of category and engineering analyses. While we appreciate that the issues paper anticipates interaction between benchmarking and more detailed analyses, we believe that the guidelines should include details regarding how discrepancies between economic benchmarking and other techniques are to be addressed.

***Question 12. Do stakeholders have any views on the relationship between the assessment tools that we have identified, and our existing incentive scheme?***

The inter-relationship between expenditure allowances and incentives is complex with many opportunities for unintended consequences, that may not be in the best interests of consumers. EA Technology has observed the development of regulation by Ofgem within Great Britain (GB) and in particular the introduction of Network Output Measures (NOM's) and the evolution of NOM's into Primary Outputs and Secondary Deliverables (SD). Examples of SD NOM's include Load Indices, Health Indices and Risk Indices.

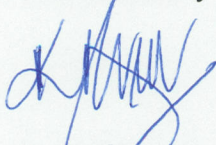


It is our observation that SD NOM's as implemented in GB, create a more direct linkage between expenditure and physical outcomes, than lagging network performance measures such as SAIDI/SAIFI. Primary outputs concern aspects of the network services provided directly to customers (e.g. SAIDI/SAIFI). If an NSP is incentivised to only focus on delivery of primary outputs, there is a risk that it will miss or ignore opportunities to take action that could improve its delivery of primary outputs in future periods. The more direct and measurable coupling between inputs and outputs in GB, helps to ensure that allowed expenditure is utilized, as per spending proposals, and provides a robust basis upon which to base efficiency incentives.

EA Technology suggests that the AER consider implementing a wider range of NOM's, including Secondary Deliverables, in addition to the more conventional output measures as a basis for determining relevant incentives. While it may not be appropriate to include SD's for all NSPs due to issues of data availability, the AER may wish to consider the concept of adopting a 'fast lane' incentives scheme for those NSP's with the capability to effectively implement and manage SD's.

Again, we thank you for the opportunity to be involved in the consultation process and we look forward to further involvement as your programme progresses.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'K Beven', with a stylized flourish at the end.

Dr Keith Beven  
**Managing Director**



