Response to AER Information Request

AER RP 023

Difference in forecast and actual

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Response to AER Questions

The following information is provided in response to the information request AER RP 023 on differences between actual/forecast costs and the allowance for the 2008-2013 RCP.

Request (AER RP 023)

We note some material differences between the AER allowance and actual expenditure in the current RCP (by category). In particular, the difference between the AER allowance and actual expenditure for Network Operations and Corporate Support was large.

Could ElectraNet please provide an explanation for the differences between the AER allowance and actual/estimated expenditure in the current RCP for the categories shown in the table.

Current RCP $m, 2012-13	AER allowance Including contingent projects	Actual /Estimate	Difference
Network Operations	12	40	28
Corporate Support	77	29	(48)
Augmentation	322	362	40
Connection	151	126	(25)
Replacement	283	237	(46)

Data is from ENET100

Response

The following provides a corrected response to the above request (changes in red).

A brief explanation for the variations noted above is provided in the following table. Further information follows below.

Current RCP $m, 2012-13	AER allowance Including contingent projects	Actual / Estimate	Difference	Explanation
Network Operations	12	40	28	Primarily reflects the new cost mapping structure (see below)
Corporate Support	77	29	(48)	Primarily reflects the new cost mapping structure (see below)
Augmentation	322	362	40	Increase in size and complexity of augmentation program (e.g. Cultana)
Connection	151	126	(25)	Deferral of specific connection projects (e.g. Coonalpyn)
Replacement	283	237	(46)	Combination of project savings and reprioritised program

Operational expenditure items

As noted in the Revenue Proposal, during the course of the regulatory period ElectraNet has restructured its organisation and implemented a new chart of accounts. It has therefore taken the opportunity to realign its cost centres with the operational expenditure allowances. While this does not alter the functional structure of the allowances, it does result in a revised underlying cost profile across these established categories. ElectraNet has therefore presented its historic expenditure in both the new format to ensure consistency with its forecasts, and in the old format to ensure like for like comparison with historic expenditure (refer section 6.8 page 111).

ENET100 presented operational expenditure across the allowance categories in both:

- the old reporting format ($2007-08) consistent with the information supplied in the information templates in ENET145 as per Table 4.5 of the Revenue Proposal; and
- the new reporting format ($2012-13) consistent with the information supplied in the information templates in ENET048, as per Table 6.21 of the Revenue Proposal.

The following information is presented in the old format (in $2012-13) for comparison on a like-for-like basis with the allowance. This indicates there is limited variance between the expenditure and original allowance for network operations. The reduction in expenditure for corporate support results from the restructuring of business operations through the implementation of the new organisation structure and lower insurance premiums achieved in the current economic climate.

Current RCP $m, 2012-13	AER allowance Including contingent projects	Actual /Estimate. Current RCP reporting	Difference
Network Operations	12	15	3
Corporate Support	77	62	15

Capital expenditure items

ElectraNet has actively managed the evolving priorities of its capital program during the regulatory control period, and is forecasting to deliver its capital program to within 1% of the total capital expenditure allowance.

As new challenges have emerged, the program priorities have necessarily changed in response, as reflected in the timing and composition of expenditure. The main influences at a category level are as follows:

- Augmentation - expenditure increased due to a combination of new requirements, unforseen complexity and scope of some projects (such as the Mount Barker South and Cultana Augmentation projects) and re-categorisation of one major project from replacement to augmentation (i.e. Ardrossan West);
- Connection - the expenditure level primarily reflects the deferral of the Coonalpyn connection point project due to local demand reductions and changed distribution network configuration, and expenditure savings on delivered projects; and

- Replacement - the expenditure level reflects savings achieved through further combining replacement works with existing projects, delays to align with linked augmentation projects (such as the Whyalla Terminal replacement and Cultana augmentation projects), delays due to project inter-dependencies and outage complexity (such as the TIPS and Para secondary systems projects), deferrals due to changed timing of the augmentation component of some replacements (such as the Waterloo Substation Rebuild and Hummocks Asset Replacement and Transformer Upgrade projects) and re-categorisation (as noted above).