

17 January 2014

Mr Chris Pattas
General Manager
Network Operations and Development
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001



Dear Mr Pattas

Energex response to AER's draft Category Analysis Regulatory Information Notice

Energex Limited (Energex) welcomes the opportunity to respond to the draft Category Analysis (CA) Regulatory Information Notice (Draft RIN) released by the Australian Energy Regulator (AER) in December 2013.

Energex notes that the Energy Networks Association (ENA) will be making a submission on behalf of its members. As a member of the ENA, Energex fully supports the ENA's submission. In addition to the views it shares with the ENA, Energex is pleased to provide comment on more detailed matters and matters of specific relevance to its business (refer to **Attachment 1**).

Key issues for Energex are the extremely short timeframes proposed by the AER, Energex's ability to provide historical data where this data is unavailable and the associated audit requirements. Of further concern is the cost and resource burden imposed.

Timeframes

The three month timeframe proposed by the AER is onerous, considering the vast scope and complexity of information required. Energex notes that the data requirements of the CA RIN are considerably more extensive than the Economic Benchmarking (EB) RIN yet the time allowed to submit the audited data is shorter.

Whilst Energex understands that the AER has a requirement to publish its annual benchmarking report by 30 September 2014 and has aligned the timeframes to meet this requirement, Energex considers the information provided in the EB RIN could be used to meet this objective. Energex therefore requests the AER allow for some flexibility in the timing of the CA RIN completion dates.

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Energex proposes that the two-stage submission process similar to that associated with the EB RIN be allowed for the CA RIN where the submission of audited data would be required six weeks later in mid July 2014.

Data availability and audit requirements

Energex has previously raised concerns regarding the AER's requirement for NSPs to estimate where historical data is unavailable. Such an approach is likely to significantly undermine data quality and consistency.

Further, there is a risk that derived estimates may not meet the audit requirements as currently proposed by the AER and may result in a qualified audit report, or the auditor being unable to form an opinion on the data.

Cost and resource burden

Energex is concerned by the cost and resource burden imposed by the EB and CA RINs and has communicated these concerns to the AER previously.

The majority of staff that will be involved in preparing information for the CA RIN are already involved in drafting or preparing information for Energex's Regulatory Proposal, calculating information for the EB RIN, or completing other business as usual tasks and projects. The information required by the CA RIN places yet more strain on resources and presents a significant delivery risk to some, or potentially all, of this work.

Energex's existing process and systems are not currently set up to provide data at a level of detail requested. The cost of system changes to continue to collect this data is currently under consideration and is expected to be significant.

Should you have any enquires regarding this submission please contact Nicola Roscoe, Revenue Strategy Manager – Network on (07) 3664 5891.

Yours sincerely



Neil Andersen
Group Manager Revenue Strategy
Revenue Strategy Group

ATTACHMENT 1: Detailed Feedback

Worksheet	Comments
General	<ul style="list-style-type: none">• Clarification is sought regarding the reporting of demand management initiatives, specifically where in the regulatory template this should be reported if the AER requires the information.• Clarification is sought regarding the meaning of cell shading. It is assumed that data is only required for yellow shaded cells, however explicit instructions to this effect are not provided. Further, reconciliation tables are not shaded yellow, and it is therefore assumed, in the absence of further direction, that input is elective.• The data required through “internal labour” tables, which are common to the worksheets of section 2 and section 4 of the regulatory template is unlikely to return meaningful data, due to the following:<ul style="list-style-type: none">◦ Energex applies a Standard Costing approach for the costing of labour within its financial and reporting systems. Energex has determined standard ordinary and overtime labour rates for each of 12 labour classifications. Allowances, oncosts and other cost impacts (i.e. Stand Down Occurrences) are incorporated into the standard rates at an average based on historical occurrence. While actual wages, allowances, etc paid to individual employees is recorded in Energex’s payroll system only the standard rates at each of the 12 labour class levels is recorded within Energex’s project/program and indirect expenditure costing system. Therefore within each template, while total labour cost for each service will represent total hours and costs incurred, average and total ASL cost will be the same in all templates. <p>Further information on this issue has been provided to the AER in response to a later request for comment.</p> <ul style="list-style-type: none">• Clarification is sought regarding the threshold to apply to identify major contracts, which is required for “direct costs by input type” tables common to the worksheets of section 2 and section 4 of the regulatory template.
Appendix E – Principles and Requirements	<ul style="list-style-type: none">• Section 1.1(h) requires that the Regulatory Accounting Statements must state fairly the financial position of Energex. It is noted that the Regulatory Accounting Statements fairly state the financial position of Energex based on the rulings and framework to be applied at the time. As elements of the draft CA RIN propose a departure from Regulatory Accounting Statements previously

prepared and audited, the outcomes are likely to differ.

- Section 1.1(i) requires that the Regulatory Accounting Statements must not be adjusted for inflation, however 1.6 requires that all historic opex and historic capex provided to the AER in response to the RIN must be in nominal dollars, which includes an inflation adjustment. Energex seeks clarification on the AER's intent.
 - Section 1.3(a) requires, for each variable, a workbook that reconciles and explains adjustments between the Statutory Accounts and the Regulatory Accounting Statements. Further direction is requested about how this should work where a variable is non-financial.
 - Section 1.3(d) requires that for each variable included in a regulatory template an explanation of how the data was derived from other sources and any assumptions that were made in this process should be provided either in the regulatory template, or in the base spreadsheet or model with a cross reference to the location of the explanation in the regulatory template. Clarification is sought regarding whether this is only for information in addition to the Basis of Preparation, or whether explanation needs to be provided twice. Energex proposes that the Basis of Preparation should be the primary explanatory document, with additional explanatory notes outside the scope of the Basis of Preparation detailed in the regulatory template or base spreadsheet.
 - Section 4.1(e) requires that employees be grouped by similar employment levels and by similar ordinary wage costs, referred to as the ASL. For internal labour costs tables, classifications will likely be based on the 12 labour rate categories used for costing internally. Energex notes that the AER has more recently proposed more detailed categories and that further detail on the issues associated with these categories has been communicated.
 - Section 15 requires that customer contributions treated as revenues in the Statutory Accounts and included in the value of assets must not be carried forward into the Regulatory Accounts; and that the asset value must remove all customer contributions from the regulatory asset base, which will create distortions in Energex data. This requirement is inconsistent with transitional arrangements in place for Energex through the National Electricity Rules which allows the inclusion of capital contributions in the RAB, and then makes a downward revenue adjustment to offset the inclusion of these assets in revenue calculations. Thus, removing capital contributions from the Energex RAB will result in a RAB reduction.
 - Further the proposed requirement is inconsistent with the requirements of the Economic Benchmarking RIN (section 4.1 of the Instructions and Definitions document). This will mean that asset data will not be comparable between the Category Analysis and Economic Benchmarking RINs.
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	<ul style="list-style-type: none"> Section 17 references metering alternative control services in its heading, however metering services are currently classified as SCS for Energex, therefore clarification is sought.
Appendix F – Definitions	<ul style="list-style-type: none"> The definition of Regulatory Accounting Statements includes a reference to Actew AGL which should be removed or amended for specific NSPs. Energex proposes that, similar to the Economic Benchmarking definitions, definitions should be grouped by spreadsheet, to assist the business in ensuring compliance with the definitions applicable to individual worksheets.
2.1 Expenditure Summary	<ul style="list-style-type: none"> The expenditure summary is unlikely to reconcile to the statutory and regulatory accounts due to the remapping of cost category required by the AER which is discussed further in the Overheads section. The classification of services set out in this spreadsheet is inconsistent with the classifications applied to Energex services. That is, connection and metering services are classified as SCS. This section should be amended to allow for the accurate summary of services.
2.2 Repex	<p><u>General</u></p> <ul style="list-style-type: none"> Definitions are sought for: <ul style="list-style-type: none"> “asset failure”, including guidance on how to treat refurbishments where an asset fails, is sent back to the workshop, and re-issued to the network (for transformers). In the absence of specific instructions from the AER, Energex will develop, apply and document rules to be applied. “steel poles”, specifically whether steel towers should be included with steel poles; “complex” and “simple” categories for pole top structures; and “<= 11kV links” relating to switchgear. <p><u>Table 2.2.1</u></p> <ul style="list-style-type: none"> As a general comment, Energex does not record data at the level of disaggregation required, therefore it will be necessary to

estimate values. For instance, in some asset categories systems do not record a replacement driver that is augmentation versus refurbishment, meaning that even expenditure and volume data at the aggregate level will need to be estimated for those asset categories.

- Energex notes that the asset categories proposed by the ENA, in response to the indicative draft of the CA RIN, were disregarded by the AER. ENA members applied considerable effort to consult with one another and reach agreement on a list of asset categories that would be most consistent with currently used categories, and that would be sufficiently detailed to allow the AER adequate benchmarking ability. To minimise burden on all NSPs Energex proposes that the AER reconsider the asset categories proposed by the ENA in response to the indicative draft of the CA RIN.
- Energex does not explicitly record all pole replacements. Although it does record pole replacements due to failed inspection and total number of poles issued by stores, systems cannot distinguish between new poles and replacement poles in augmentation projects. Therefore Energex proposes to estimate number of poles replaced through different types of augmentation projects.
- Clarification is sought on how to treat refurbished assets for Ground Outdoor (Power Transformers).
- Replaced MVA is not specifically recorded therefore Total MVA is unknown for distribution transformers, and potentially power transformers.
- For switchgear, clarification is required regarding how to treat distribution substations, that is whether LV and HV switches should be separated or combined.

Table 2.2.4

- Column headings include both the headings “current regulatory control period” and the columns for each year 2009-2013. As these years are inconsistent with Energex’s current regulatory control period, the AER should clarify that it requires information for the specified years by removing the reference to regulatory control period (assuming this is the correct interpretation).

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- Energex notes that augex reported in the CA RIN will not reconcile to that reported in the Annual RIN. This is because the CA RIN requires reporting on an as commissioned basis, meaning that all expenditure will be reported in the year in which the work was commissioned, whilst the Annual RIN is on an as incurred basis meaning that expenditure is reported for the year in which it was incurred.
 - For land and easements, clarification is sought regarding the treatment of land divestments.
 - For plant and equipment expenditure and volume (tables 2.3.1 and 2.3.2) and Expenditure (tables 2.3.3 to 2.3.5) it is possible to identify total actual costs for a project, however the ability to disaggregate expenditure into the equipment categories is extremely limited. At best this would be a labour intensive task requiring the review of historical Estimates/Scoping reports for hundreds of projects assuming that the data is available in these reports. Given the burden this task imposes, Energex proposes that expenditure be required only at the aggregate level.
 - Further, whilst Energex may be able to obtain volumes through data mining, it will not be possible to calculate actual costs as this historical unit rate data is not captured. Energex would therefore need to estimate unit rates for previous years.
 - Energex will not be able to consistently and reliably disaggregate "Other expenditure" because civil works are not identified separately in estimates. Whilst it is possible that some contracts may include disaggregated expenditure, this level of disaggregation is not possible for all projects.
 - For distribution feeder projects there is limited availability of detailed data and it is therefore proposed that a threshold of \$1 million be applied to identify material and non-material projects, similar to the requirement for Tables 2.3.1 and 2.3.2. Applying this threshold would significantly reduce burden on the business. Further details regarding this issue have already been communicated to the AER and can be made available again on request.

Table 2.3.1

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- Clarification is sought regarding:
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- the assignment of project triggers where an augmentation project is instigated by multiple triggers;
 - the required treatment of land divestments; and
 - whether the augmentation relates to greenfield or extension or replacements.
- Energex has no visibility over costs of gifted capex developments, therefore costs are not available for both material and non-material projects. At best Energex could provide estimates of what a similar project might cost, but this would have limited value as a benchmark. Energex proposes that gifted assets be excluded.

2.5 Connections Table 2.5.1

- The data could be sourced, but the disaggregation into requested categories (63kVA, 100kVA, 315kVA) would be a manual and resource intensive process, with an estimated 700 reports per year to be investigated for Residential and C&I alone. It is therefore proposed that reporting be required at the aggregate level only.
 - Clarification is sought from the AER regarding:
 - Information required for “distribution substation installed”, specifically on whether this should include shared transformers installed on the network in response to a connection request as well as to dedicated transformers.
 - Whether work that is not performed on the network should be captured under embedded generation. Energex performs a significant amount of work relating to embedded generation that does not involve work on its network, for instance preparing agreements with customers for the installation and connection of rooftop solar and therefore queries whether this should be included as connections work. In the absence of further direction Energex proposes not to include this work.
 - Energex does not undertake connections work for subdivisions, rather it is undertaken by developers. Therefore it will not be able to provide the costs associated with this work, and proposes that this requirement be excluded.
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- Energex does not have a complete data set for embedded generation metrics and financial information. As data not available for 2008/09 and 2009/10 it will need to make estimates based on the years for which it does have data.

2.6 Vegetation Management

General

- To reduce the burden of the CA RIN, it is important to ensure consistency with vegetation management data required by the Economic Benchmarking (EB) RIN, thereby allowing the businesses to leverage data already provided. Energex notes much of the information sought by the AER is similar information to that requested in the Economic Benchmarking (EB) RIN and proposes that data be split only into the two categories used for the EB RIN – that is rural, and urban and CBD to avoid duplication of sampling activities and the associated cost.
- Energex does not record information on either the number of maintenance spans per year, or the average number of maintenance spans and will need to develop estimates based on sampling throughout its network. That is, Energex will need to first estimate the number of maintenance spans based on sampling (i.e. how many of sampled spans would require maintenance), and then count the average number of trees that would require maintenance on each of these spans.

Energex is concerned at the risk that varied sampling or estimation methodologies across NSPs will lead to perceived variances that do not actually exist. Energex proposes that the AER engage a contractor to undertake the work consistently across each NSP's network.

2.7 Maintenance

General

- Energex does not record data on the average age of the required asset groups, therefore broad estimates will be necessary.

2.8 Emergency

General

- Whilst the draft CA RIN does not explicitly require it, the AER has indicated that the definition of severe weather event will be consistent with a Major Event Day (MED). Energex is unable to separate out costs associated with a MED because the designation of this event is typically made subsequent to the coding of the work. It is not possible to identify these costs at a later date because there is no way of accurately identifying the work. It should also be noted that work associated with major events can continue for several days after the event has occurred. The requirement to split out MEDs would be a significant burden on
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the business.

- Further, the MED definition was primarily designed for the purpose of the Service Target Performance Incentive Scheme (STPIS) to measure customer impact, rather than cost to the NSP. It is therefore not an appropriate measure of the cost associated with major events.

2.9 Overheads

General

- Energex notes that it cannot recast data for the previous regulatory control period using its current CAM as this would not allow for the reconciliation of data to the Regulatory and Statutory Accounts. Therefore it is assumed that the CAM that will apply to this worksheet is the CAM operating for the relevant year. Energex notes that its CAM was amended for the current regulatory control period.
- Unregulated services are not captured in systems with the level of detail that regulated services are, therefore the level of disaggregation required cannot be provided.
- Given the subjective nature and therefore limited accuracy for comparison against other NSP's of any allocation, Energex would propose to only report ICT, fleet and property overhead costs in either Network or Corporate overhead categories rather than both. Energex's reporting and costing systems do not distinguish between Network and Corporate Overhead use. Energex applies on-costs and overheads as single charges against the underlying Standard Control and Alternative Control Services based on total direct spend.

While individual cost centres within Energex's overhead and indirect cost categories may be able to be allocated to Network or Corporate Overhead (e.g. Network Operations to Network Overhead, HR to Corporate Overhead), detailed allocation of costs incurred in the cost centres (e.g. vehicles) will require subjective allocation between Network or Corporate Overhead. Given the volume of underlying transactions, significant effort and high level assumptions would be required in order to dis-aggregate ICT, fleet and non-system property costs between Network and Corporate overhead categories.

- If Energex reports data against Network Overheads using the categories proposed by the AER, it will not be able to reconcile expenditure back to the Statutory and Regulatory Accounts. This is because the Statutory and Regulatory Accounts include Network Operating Costs, Customer Service and DSM Initiatives as direct expenditure, however the AER requires that these categories be included as network overheads. This means that expenditure associated with these three categories would be
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removed from direct expenditure and then reallocated across direct expenditure as an overhead. Reconciliation to Statutory and Regulatory Accounts will therefore not be possible.

2.14 Non-Network

General

- Clarification is sought regarding the term “class of assets”. It is assumed that this refers to assets disaggregated by each of the tables, that is, “Client Devices Expenditure” is a class of asset.
- Energex seeks clarification of the terms included in this template. Energex considers the template reference to “Non Network Expenditure” relates to expenditure on Non System assets (i.e ICT, Fleet, Tools, Property), whereas within the tables the reference to Non-Network (i.e. Non Network Vehicles) relates to the predominant underlying use of the asset.

IT and communications

- Energex questions the relevance of making an assessment of the prudence and efficiency of historical IT investment. Whilst the assessment of prudence and efficiency based on business cases is important for a Submission RIN where expenditure is being assessed, these projects have already been through due process and assessed as beneficial.
- The split between SCS and ACS will reflect the allocation to services on the basis of direct expenditure on these services consistent with Energex's Approved CAM
- It will be difficult to accurately identify historical recurrent versus non-recurrent expenditure items through systems, therefore to obtain actual data would require the resource intensive tasks of reviewing source documents. It is therefore proposed that the disaggregation into recurrent and non-recurrent be excluded.
- Clarification is sought regarding the definition of recurrent and non-recurrent expenditure, and/or the maximum length of the recurrence cycle that should apply.

Motor vehicles

- The proceeds of disposals are classified as unregulated revenue therefore, in the absence of further direction, Energex proposes not to report disposals in this worksheet.
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- The split between SCS and ACS will reflect the allocation to services on the basis of direct expenditure on these services consistent with Energex's Approved CAM.
 - Energex's reporting systems do not distinguish between Network and Non-Network vehicles but rather by vehicle category. The definition of "*Network Motor Vehicle Expenditure*" fails to provide a clear explanation to enable distinction from Non-Network Vehicle Expenditure. The definition "*supporting the operation, development, maintenance and management of the network*" generally represents all activities undertaken by a NSP. As Energex's systems do not distinguish vehicle by function, to do so would require a significant resource intensive process to review and classify all vehicle costs.

Given that Energex believes that any vehicle relative to "Non-Network Vehicles Expenditure" would most likely be reported only in the "car" category, Energex proposes to report all other vehicle categories as "Network Vehicles Expenditure"

- Energex propose to use the following additional motor vehicle category with the below definition: Crane Borers (HCV) are Motor Vehicles that have permanently attached crane borers that would be HCVs but for the exclusion of crane borers from the definition of HCV. Measure should be per EWP (HCV) (with tonnage per definition for 'Heavy Commercial Vehicle (page 43)).

It is Energex's preference that Crane Borers are treated as a separate category same as EWP's. Energex believes there is a distinct driver for this category that warrants separation. All other definitions relative to motor vehicles should be modified to reflect this additional category.

Other

- Consistent with Clause 10.12 and 10.13 of the *Principles and Requirements*, and where Energex considers there is an appropriate distinct driver for the expenditure it will dis-aggregate costs within the "Other Expenditure" category to relevant sub categories.

4.1 Public Lighting

General

- Energex has type 1 and type 2 public lighting, therefore clarification is sought regarding the treatment of contributed light installations.

4.2 Metering

General

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- Type 5 metering is not relevant to Queensland NSPs.

Table 4.2.2

- Clarification sought for:
 - Meter maintenance, that is, whether this will include refurbishment work performed on meters by the Energex meter lab. Energex does not typically perform much maintenance work, with work more focussed on meter replacements.
 - The treatment of “other metering”, that is whether this should include network metering (located on poles), or whether this should include revenue metering only. Previous rulings have directed the inclusion of revenue metering only, and it is therefore assumed that this will apply to the regulatory template and network monitoring meters would be extracted from Energex data.

4.3 Ancillary Services - Fee-based Services

General

- Energex will not be able to provide all information on all ACS categories for 2008/09 and 2009/10 due to the reclassification of its services for the current regulatory control period under the AER. Previously the QCA classified services as either Distribution Services or Excluded Services. The majority of Distribution Services became SCS, and Excluded Services became ACS. However there were a portion of Distribution Services which became ACS for which expenditure information was not captured. This applies to Quoted Services also.

Table 4.3.1

- Energisation is not a fee based service for Energex.

Table 4.3.5

- Energex does not have a dedicated staffing team for fee based services so will be difficult to allocate the cost breakdown. If Energex were to provide this information, it would be at a high level with multiple assumptions.

4.4 Ancillary Services - Quoted

- Similar to section 4.3, the quoted service classification did not apply to Energex prior to 2010 and detailed data for these years is not available.
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Services	<p><u>Table 4.4.1</u></p> <ul style="list-style-type: none"> This table refers to “Fee-based services total cost”, and it is assumed that this should be “quoted services total cost” unless advised otherwise. <p><u>Table 4.4.5</u></p> <ul style="list-style-type: none"> Similar to section 4.3, Energex has no dedicated staffing team for quoted services so will be difficult to allocate the cost breakdown.
5.2 Asset Age Profile	<p><u>Table 5.2.1</u></p> <ul style="list-style-type: none"> Actual data recorded by Energex is insufficient to calculate the mean and standard deviation life of assets. This is because when an asset is replaced, the reason for this replacement is not captured so Energex is unable to differentiate between installation due to condition, augmentation, failure or storm events/flooding. Therefore estimates for this data will be necessary and will be based on manufacturers’ specifications, theoretical asset life modelling, accounting depreciation schedules and/or possibly comparable data from other NSPs, depending on the data held for a particular asset. Whilst Energex will be able to provide actual data, or solid estimates, for the quantities of many asset groups, there are some which will require broad estimation, specifically for conductors, cables, service lines and some lighting assets. Clarification is sought regarding: <ul style="list-style-type: none"> Pole Top Structures, specifically what is meant by “simple” and “complex”. Definitions for each of the sub-asset categories, that is Fuse and Fuse Switch, circuit breaker, load breaks switch, links, so that Energex can understand specifically what items are included in these categories
5.3 Maximum demand - Network Level	<p><u>General</u></p> <ul style="list-style-type: none"> Clarification is sought from the AER in relation to the input into cells for summer/winter peaking. It is assumed that the input is

either “summer” or “winter”.

5.4 Maximum demand & utilisation - spatial

Tables 5.4.1 and 5.4.3

- Clarification is sought regarding the years for which data is required. Whilst the table requests data back to 2004/05, Energex notes that in the December workshop the AER confirmed that data will only be required from 2008/09, consistent with the remainder of the regulatory template.
- Energex will not be able to provide historical switching data as a large number of switchings are undertaken each year and not recorded. It is proposed that the requirement to report on switchings be removed.
- It will be extremely burdensome to provide data on historical transfers, and will require the derivation of estimates. It is proposed that the requirement to report on transfers be removed.
- Clarification is sought from the AER in relation to the following matters:
 - The threshold to be applied in defining block loads; and
 - The assets that are, and are not, included under the definition of subtransmission substation.

6.3 Interruptions to Supply

- Clarification is sought regarding which outages should be included. Whilst instructions require the “input of both planned and unplanned outages”, and section (a) details what outages can be excluded under STPIS, instructions are not explicit as to whether these outages should be excluded from the dataset. In the absence of further direction, Energex will assume that all outages greater than 0.5 seconds should be included, and the “Reason for Interruption” column and “MED” column will facilitate normalising.
 - The “reasons for interruptions” categories proposed by the AER are inconsistent with both the categories used by Energex and those required by the Annual RIN meaning that significant work is involved in remapping the Energex categories to the CA RIN categories. Energex currently reports the following reasons, which it proposes to retain:
 - Weather
 - Equipment failure
 - Operational error
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- Vegetation
 - Animals
 - Third party impacts
 - Transmission failure
 - Load shedding
 - Inter-distributor connection failure
 - Other
 - The headings of Columns 3 and 4 may result in issues for grouping of the data. That is, Column 3 (Feeder ID/name or Zone substation) requires grouping by feeder or substation, whilst Column 4 (Feeder classification) requires category of the feeder. With most substation outages there is more than one feeder and possibly more than one category, meaning that in reality a substation will not be listed against Column 3.
 - Column 4 lists feeder classifications, which includes “sub-transmission” and “other”. As these are not valid classifications under STPIS, clarification on these classifications is sought.
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