

18 October 2013

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 Economic Benchmarking Regulatory Information Notice and Better Regulation Explanatory Statement

Energex Limited (Energex) welcomes the opportunity to respond to the draft Economic Benchmarking Regulatory Information Notice (Draft RIN) and the Better Regulation Explanatory Statement (Explanatory Statement) released by the Australian Energy Regulator (AER) in September 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 summarised below.

Reliance on estimates

Energex is concerned by the need to develop methodologies and assumptions to derive estimates where data is not available. There are a range of variables, across all worksheets of the Data Template, for which data is not available. This is largely due to a number of systems being superseded and decommissioned during the last ten years for which data is requested.

Energex is concerned about the reliability of estimates, using available data sources, derived on the basis of broad assumptions and potentially weak methodologies. Further, any derived estimates may not meet the requirements for audit as currently proposed in the Draft RIN, and may result in a qualified audit report, or the auditor being unable to form an opinion on the data.

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Disaggregation of Standard Control Services (SCS) data

Energex is concerned by the requirement to disaggregate historical Standard Control Services (SCS) revenue and asset (RAB) data in order to separately report on Network Services data. Energex systems have not historically disaggregated SCS data relating to revenue and assets into network services and other SCS services. Therefore, Energex would need to develop potentially unreliable assumptions and methodologies to apportion data to Network Services.

Audit by one auditor

Energex requests that it be allowed to engage separate auditors to perform the audit of financial data and of non-financial data. The draft RIN requires that one person be engaged to perform the audit of all data however engaging two auditors would be administratively easier, and consistent with current arrangements. There is precedent for Energex's proposed approach, with the Annual RIN being assessed by two different auditors.

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

Yours sincerely



Neil Andersen
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ATTACHMENT 1: Data Template Feedback

Worksheet	Energex Feedback
1. Variables and definitions	<p data-bbox="510 346 1133 376"><u>Section 1.1 Data Template (General Definitions)</u></p> <ul data-bbox="510 399 1980 464" style="list-style-type: none"> • SCS are aggregated in Energex systems, and separating out Connection Services and Metering Services from Network Services will be resource intensive and in some instances not possible. <p data-bbox="510 499 1424 529"><u>Section 2.1 Data Template (Revenue grouping by chargeable quantity)</u></p> <ul data-bbox="510 585 1980 997" style="list-style-type: none"> • Energex believes that definitions for this section should cross-reference those provided in Section 1.1, for example: <ul data-bbox="607 671 1178 997" style="list-style-type: none"> ○ DREV0101 should reference DDEF0202 ○ DREV0102 should reference DDEF0203 ○ DREV0103 should reference DDEF0204 ○ DREV0104 should reference DDEF0205 ○ DREV0106 should reference DDEF0207 ○ DREV0107 should reference DDEF0208 ○ DREV0108 should reference DDEF0209 • The definition for DREV0105 “Revenue from Off-Peak period Energy Delivery Charges” appears to be inconsistent with that provided for DDEF0206. <p data-bbox="510 1158 1124 1189"><u>Section 7.1 Data Template (Quality of Services)</u></p> <ul data-bbox="510 1244 1980 1307" style="list-style-type: none"> • Energex considers that the following amendments are required to definitions to correct details and improve clarity:

	<ul style="list-style-type: none"> ○ Variable DQS0101 should read “All unplanned SAIDI (whole of network)” and the associated unit of measurement should be minutes/customer/year. ○ Variable DQS0102 should read “Distribution related unplanned SAIDI (whole of network)” and the associated unit of measurement should be minutes/customer/year. ○ Variable DQS0103 should read “All unplanned SAIFI (whole of network)” and the associated unit of measurement should be number of interruptions/customer/year. Further, the requirement that SAIFI be expressed per 0.01 interruptions should be removed. ○ Variable DQS0104 should require the unit of measurement to be number of interruptions/customer/year. ○ Variable DQS0105 should read “All unplanned SAIDI (whole of network)” and the associated unit of measurement should be minutes/customer/year. Further, the data should be exclusive of MEDs. ○ Variable DQS0106 should require the unit of measurement to be minutes/customer/year. Further, the data should be exclusive of MEDs. ○ Variable DQS0107 should read “All unplanned SAIFI (whole of network)” and the associated unit of measurement should be number of interruptions/customer. Further, the data should be exclusive of MEDs. ○ Variable DQS0108 should require the unit of measurement to be number of interruptions/customer. Further, the data should be exclusive of MEDs. ○ Variable DQS0201, DQS0202 and DQS02 should require the units of measurement to be GWh/year
2. Revenue	<p><u>Section 2.1.2 Explanatory Statement (Revenue)</u></p> <ul style="list-style-type: none"> • The AER states that the revenue requirements should ‘include’ under- or over-recovery of revenue against forecasts, and specifies in the instructions for Revenue Worksheet that “Actual revenues are to be reported in the table”. As Energex is concerned that the AER’s interpretation of the requirement to “include under- or over-recovery of revenue” may be different to Energex’s, the following example is provided to illustrate what Energex considers to be the AER’s intention, and the approach therefore that Energex proposes to take: Where forecast revenue is \$1,000M, and actuals are \$800M, Energex would have an under recovery of

\$200M. Energex proposes to report actual revenue (\$800M).

- The AER states that the revenue worksheet is designed to collect only “direct control network services” revenues. Energex considers that this should read “direct control services” and proposes to treat it as such.
- The requirement to disaggregate revenue and assets data to split out Network Services data will create just as significant burden as the removal of the effects of incentive schemes, which the AER will not require due to the impost of an “additional, unnecessary burden”.

Section 2 Data Template (Revenue Worksheet)

- Whilst Energex is able to provide total revenue for the specified time period, as well as the disaggregated data from 2012 onwards, there are significant limitations regarding the availability of disaggregated data that is required by Table 2.1 and Table 2.2 for years prior to 2012.

Section 2.1 Data Template (Revenue grouping by chargeable quantity)

- As discussed in its preliminary response, Energex is unable to access disaggregated data prior to 2008 due to a change in billing system, and the previous system being decommissioned; and due to changes in pricing structures. Therefore the only data available before 2008 is total revenue data, for which Energex does not have a reliable apportionment basis.
- As discussed in its preliminary response, the extraction of disaggregated revenue data for SCS alone between 2008 and 2011 would place a significant burden on Energex, and would require at least 6 months to develop appropriate data extraction and reports.
- Critically, the further disaggregation of SCS data into Network Services is not possible as this is an expense classification rather than a revenue classification. A significant amount of work would be required to disaggregate revenue based on this classification. Therefore Energex will need to estimate revenue by applying broad assumptions and potentially unreliable methodologies to derive the specified categories.

For instance, Energex is considering how its pricing model could be used as a basis for apportioning actual network services revenue to the required categories, or alternatively how SCS activities in the chart of accounts could be apportioned to network services using operational information. Energex notes that, the feasibility of these options has not been fully investigated, but these examples illustrate the difficulties that

	<p>will be encountered in providing the requested data. The application of broad assumptions and unreliable methodologies such as these could then lead to increased risk of a qualified audit report, or of the auditor being unable to form an opinion on the data.</p> <ul style="list-style-type: none"> • Prior to 2013 Energex used just two time periods, being Peak and Off-Peak, for business customers only - Time of Use (TOU) pricing, which uses Peak, Shoulder and Off-Peak periods, was only introduced for residential customers from the 2012/13 year. Therefore for business customers Energex proposes to report on Peak and Off-Peak categories only, with no data provided on shoulder periods. Energex notes that providing Shoulder period data would require the application of a methodology to estimate the portions of Peak and Off-Peak categories to be apportioned to a Shoulder period for business customers. <p><u>Section 2.2 Data Template (Revenue grouping by Customer type or class)</u></p> <ul style="list-style-type: none"> • As discussed in its preliminary response, prior to 2012 Energex is unable to map customer categories used historically against those requested. For instance, Energex does not have a reasonable apportionment basis to split revenue between low voltage and high voltage demand customers; or between revenue from domestic customers and non-domestic customers not on demand tariffs. To illustrate, revenue data was collected on the basis of the following categories: <ul style="list-style-type: none"> ○ Individually Calculated Customers; ○ Connection Asset Customers; ○ Standard Asset Customers; ○ Franchise Customers; and ○ Embedded Generators. <p>Consistent with the above discussion, Energex will need to estimate revenue by applying broad assumptions and potentially unreliable methodologies.</p>
3. Opex	<p><u>Section 3 Data Template</u></p> <ul style="list-style-type: none"> • Energex considers that there is general ambiguity regarding how this section should be completed which results from inconsistency between the Worksheet 3 instructions and Worksheet 1 definitions; an apparent

typographical error in the instructions; and a lack of clarity in the instructions.

- Energex seeks confirmation that 3.2 “Opex consistency” is intended to be on a different basis of disaggregation to the 3.1 “Opex categories”. Energex proposes to take this approach.

Section 3.1 Data Template

- There appears to be inconsistency between the instructions provided in Worksheet 3 and the definitions provided in Worksheet 1, as well as a typographical error in the instructions. Specifically:
 - The definition for 3.1.2 reads “Section 3.1.2 is only relevant if DNSP has changed opex categories and cost allocation methodologies over time” which is inconsistent with the instruction for 3.1.2 which appears to be stating that it is relevant if the DNSP has changed cost categories and/or CAM more than once (although as discussed below this is ambiguous given an apparent typographical error).
 - The start of the second sentence of instruction 3.1.2 reads “If the DNSP has changed cost categories and/or more than once...” In the absence of further clarification Energex will operate on the assumption that this is intended to read “If the DNSP has changed cost categories and/or CAM more than once...”
 - The CAM that should apply to section 3.1.2 is not explicitly stated, however Energex will operate on the assumption that the CAM of the relevant year should be applied.
 - Energex has amended its CAM multiple times over the given period, with annual amendments being made prior to 2005. As the instructions state that rows and sections can be added as required where this is the case, Energex interprets this to mean that within section 3.1.2 it can add opex categories relevant to some years and not others and populate the data relevant to each year accordingly; and that where a CAM has changed between years this will be applied to the data for the relevant year. In the absence of further direction, Energex proposes to take this approach to section 3.1.2.

Section 3.2 Data Template

- As noted in its previous submission, Energex is unclear on the intended meaning of “Opex for amounts payable for easement levy or similar direct charges on DNSP” (DOPEX0205). Energex does not pay easement levies. As this appears not to apply to Energex, it will not report on this item.

	<ul style="list-style-type: none"> Similarly Energex will not report on “Opex for high voltage customers” (DOPEX0206) and “Opex for transmission connection point planning” (DOPEX0207) as these categories do not apply.
4. Assets (RAB)	<p><u>Section 4.1.1 Explanatory Statement (Assets (RAB) Worksheet)</u></p> <ul style="list-style-type: none"> Energex notes that the AER has removed the reference to “sub-transmission” because the term is currently undefined in the NER. The AER has amended the “sub-transmission” categories to only include assets 66kV or above. Energex welcomes the removal of the ambiguity, however, Energex proposes that the AER amend the threshold to “33kV or above”. Energex notes that 33kV is generally considered to be sub-transmission in most jurisdictions and better reflects the asset class the AER is trying to capture. Should the proposed threshold of 66kV be retained, Energex would need to develop a methodology to apportion asset sizes between 33kV and 66kV to the sub-66kV category proposed by the AER. <p><u>Section 4.1.2 Explanatory Statement (Assets (RAB) Worksheet)</u></p> <ul style="list-style-type: none"> The proposed exclusion of capital contributions from the RAB will create distortions in Energex data due to the Queensland approach to capital contributions. This approach, which continues as a transitional through the current regulatory control period to 2015, includes 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 which is not reflected in the revenue reported through the RIN. The proposal that substation land should be reported in the substation category will result in inaccuracies due to the treatment of depreciation. System land of approximately \$200 - 300M value (of which substation land is a component) is currently not depreciated by Energex, however the inclusion of this land as substations will result in depreciation over 45 years. Energex therefore proposes to perform calculations on substation land and other substation assets separately, and then aggregate this data for population under the substation category. <p><u>Section 4 Data Template (Assets (RAB) worksheet)</u></p> <ul style="list-style-type: none"> Energex cannot provide reliable data for its RAB prior to 2005 when it was re-valued on the basis of a comprehensive physical asset inspection. This revaluation revealed a difference of approximately \$700M,

therefore it would be inappropriate to use previous values. To derive values prior to this period will require estimation based on the revised values.

- Energex seeks clarity regarding its approach to capturing forecast capex included in the calculation of the RAB for the current regulatory control period. That is, the AER last made a determination on the Energex RAB on at the beginning of current regulatory period, 1 July 2010, based on the AER's roll-forward model (RFM). The RAB value calculated by the RFM incorporates 'forecast capex' for 2009-10, with the adjustment for 'actual 2009-10 capex' to be made in the next regulatory control period, being 2014-15. Energex seeks guidance from the AER, on how the RAB should be rolled forward to establish the values for its current regulatory period.

In the absence of further direction Energex will roll forward the value established on 1 July 2010 which incorporates 2009-10 forecast capex. Energex notes that an alternative approach could be to use the RFM to establish the value at 1 July 2010, and update for actual 2009-10, 2010-11 and 2011-12 capex.

- This Worksheet does not specify, through instruction or definition, which CAM should be applied to derive capex for the roll forward. Energex proposes to apply the CAM for the relevant year so that the RAB reported in the RIN matches the actual Energex RAB. If an alternative CAM were to be applied, capex would change and so too would the RAB.
- SCS cannot be disaggregated to split out Network Services as this level of data is not recorded by Energex. This is due to the way work is issued and executed. That is, in Energex systems data is aggregated by project and each project may comprise a mix of asset categories as requested by the AER. Further there may be some inaccuracies in the way that data is captured in the system at the time of undertaking projects, which could lead to unreliable data.

Energex would need to develop a methodology and assumptions to derive this data. If an apportionment basis was derived, it may be based upon annual asset additions (under an "as commissioned" methodology), which would then need to be applied to the other RAB items such as depreciation, indexation/inflation addition and disposals.

- Capital contributions include both (cash) financial contributions and (in kind) contributions of physical assets to network service providers. For clarity, Energex proposes that the description of DRAB12 be changed to "capital contributions including contributed assets".

	<ul style="list-style-type: none"> • If section 4.1 is intended to be the aggregation of section 4.2, Energex notes that there are inconsistencies between the terms used in each section. Specifically Energex seeks clarification on whether: <ul style="list-style-type: none"> ○ “Overhead distribution assets (wires and poles)” in row 24 is the same variable as “overhead network assets less than 66kV” in row 44; ○ Underground distribution assets (cables, ducts etc) in row 25 is the same variable as “underground network assets less than 66kV” in row 52; ○ “Zone substations” in row 29 is the same variable as “Zone substations and transformers in row 84 from section 4.1 in section 4.1 from section 4.1 in section 4.1. • If the AER changes the threshold applied to sub-transmission assets to 33kV, this will need to be reflected throughout this worksheet.
5. Operational data	<p><u>Section 5.2 Data Template (Customer Numbers)</u></p> <ul style="list-style-type: none"> • For the variable Residential customer numbers (DOPCN0101), and the associated definition (DDEF0301), Energex requests clarification as to whether this comprises active numbers and de-energised customer numbers, or just active customer numbers. In the absence of direction from the AER Energex proposes to provide active customer numbers only. <p><u>Section 5.3 Data Template (System demand)</u></p> <ul style="list-style-type: none"> • Energex is able to provide reliable system demand back data to 2007, however the previous system used to capture system demand data was replaced in 2007 meaning that previous data is not available (with the exceptions listed below). Extracting and/or calculating actual data from the decommissioned system prior to 2007 would be very difficult and resource intensive. Energex notes that the extraction of similar historical information from the previous system took approximately 6 months for 2 years of data. Energex therefore proposes to provide actual data from 2007, and then to apply high level assumptions and methodologies to estimate the data prior to 2007.

	<ul style="list-style-type: none"> • Energex should be able to source individual substation demand back to 2005 for the purposes of calculating “Non-coincident Summated Raw System Annual Maximum Demand” (DOPSD01); “Non-coincident Summated Raw System Annual Maximum Demand” (DOPSD07); and “Non-coincident Summated Raw System Annual Maximum Demand” (DOPS19). • The calculation of weather adjusted system annual maximum demand values prior to 2007 would be a resource intensive task which would involve dedicating a resource to perform temperature adjustments on available data. It is also noted that Energex has been refining its methodology for calculating weather adjusted system annual maximum demand over recent years, therefore there are inconsistencies in the methodology applied between years. • For the tables relating to Annual system maximum demand characteristics at the terminal station level – MW measure; and Annual system maximum demand characteristics at the terminal station – MVA measure, Energex requests clarification regarding the meaning of “terminal station”, specifically whether this term is intended to refer to a connection point. Energex proposes to take this approach in the absence of further direction.
6. Physical assets	<p><u>Section 5.1.2 Explanatory Statement (Circuit Capacity MVA)</u></p> <ul style="list-style-type: none"> • The AER states that it requires “a high-level weighted average MVA factor based on engineering knowledge within each business, as opposed to a detailed calculation for every line in the NSP’s network”. Energex historic feeder rating data is not globally available therefore Energex proposes to calculate this capacity using historic feeder count and estimated feeder capacities deemed appropriate by its engineering staff based on current network and current feeder ratings. <p><u>Section 6 Data Template</u></p> <ul style="list-style-type: none"> • Due to the implementation of Network Facilities Management (NFM), the Energex asset database, in 2003, data is unavailable for 2003 for a number of variables relating to physical assets. Energex would need to apply a methodology to estimate 2003 values, which may apply data extrapolation based on increases (or decreases) from 2004-12. This applies to the following sections: <ul style="list-style-type: none"> ○ 6.1 Circuit Length; ○ 6.2 Transformer Capacities Variables; and

	<ul style="list-style-type: none"> ○ 6.3 Public lighting. <p><u>Section 6.1 Data Template (Network Capacities Variables)</u></p> <ul style="list-style-type: none"> • Many feeders on the Energex network will include a combination of both overhead and underground network. Energex seeks direction regarding how the split between overhead and underground network should be performed. In the absence of further direction Energex is considering treating feeders as homogenous, which would involve categorising feeders as overhead or underground and applying feeder ratings (based on first few segments of the feeder) and total circuit length to the overhead or underground capacity factor. <p><u>Section 6.2 Data Template (Transformer Capacities Variables)</u></p> <ul style="list-style-type: none"> • Energex seeks confirmation regarding the following variables required under Zone substation transformer capacity: <ul style="list-style-type: none"> ○ Total installed capacity for first level transformation; and ○ Total installed capacity for second level transformation. <p>In the absence of direction, Energex proposes to apply its interpretation that total installed capacity for first level transformation refers to a bulk substation; and that total installed capacity for second level transformation refers to a zone substation.</p>
7. Quality of services	<p><u>Section 7.4 Data Template (Capacity utilisation)</u></p> <p>Energex requests clarification regarding the type of thermal capacity to be applied to calculate capacity utilisation. It is noted that the definition states that capacity utilisation is the “Ratio of sum of non-coincident maximum demand at the zone substation level divided by summation of zone substation thermal capacity”. For instance, this could be interpreted as nameplate capacity, emergency capacity or another type of capacity.</p>
8. Operating environment	<p><u>Section 8.2 Data Template (Terrain Factors)</u></p>

- Energex is unable to provide much of the information requested on vegetation management on a one, two and three year cycles (DOEF0202 to DOEF0204). Specifically:
 - Whilst for the last three years Energex is able to provide historical data on vegetation management on a one and two year cycle, it does not undertake vegetation management on a three year cycle this information cannot be provided. Energex does undertake vegetation management on a four year cycle and proposes that, if the AER considers a third category of scheduled maintenance to be necessary, that this should be for vegetation management on a four year cycle.
 - Between 2005 and 2009 Energex cannot provide the requested data as it performed vegetation management on the basis of 15 and 30 month cycles. There is no reliable basis for Energex to reapportion work to 1, 2 and 3 year categories.
 - Prior to 2005 Energex cannot provide cyclical data on vegetation management as it was not managed on a cyclical basis. Instead work was undertaken on a piecemeal basis, heavily influenced by factors such as budget, past performance and level of risk.
- In relation to future RINs, Energex notes that the requirement to capture cyclical vegetation management data is likely to impose significant costs on the business due to a change in contractor arrangements. In December 2013 Energex will commence new Contractor arrangements, which are anticipated to achieve significant cost reductions, and will require vegetation management to be undertaken on a risk based, rather than a cyclical, approach. Energex anticipates that collecting this data is likely to require the establishment of data collection or reporting arrangements with its contractors, and that the cost of this could be significant.
- Whilst Energex can access requested data relating to bushfire risk (DOEF0208) from 2007 onwards, a nil response will apply prior to this as the Queensland Fire and Rescue Service did not define high risk bush fire areas for use by Energex.
- Energex is concerned that data relating to standard vehicle access will be difficult to extract, and that assumptions will need to be applied to the extracted data, meaning that the process will place a cost impost on the business, may entail a significant lead time, and may not result in reliable data. Specifically Energex may need to develop an algorithm to extract from GIS data on off-road reserves (that typically enable standard vehicle access). As a significant number of off-road reserves do not enable standard vehicle access, Energex will need to apply assumptions to calculate estimated values.