Memorandum

TO	Ley, Andrew [mailto:Andrew.Ley@aer.gov.au]	CC	Mark McLeish, Sam Sutton; Jason King; Kevin Cheung (AER)
FROM	Ergon Energy Jenny Doyle, Kim Casey	DATE	13 November 2013
SUBJECT	AER Draft Economic Benchmarking RIN (Vegetation management definitions and RAB allocation approach for comment)		

On Wednesday, 30 October 2013 the AER advised DNSPs that in response to submissions made on the Draft Economic Benchmarking RIN (draft BM RIN), it had developed:

- Revised definitions for vegetation management operating environment factors
- Instructions for a standard approach to disaggregating the RAB
- Definitions for actual financial information and estimated financial information.

AER sought comments on the revised defintions and instructions, for consideration in finalising the economic benchmarking RIN.

Ergon Energy makes the following comments with regard to each of the items provided for comment.

- Vegetation Management Operating Environment Factors

AER proposes amendments to variables in table 8.2 *Terrain factors* of the worksheet 8, Operating environment. The following variables would replace those currently listed as DOEF0202–DOEF0206 and DOEF0208 in the draft BM RIN issued to Ergon Energy.

The following comments are made in this regard, though it is generally noted the requirements appear more onerous than prior requested:

Variable	Definition	Ergon Energy comments
Total number of vegetation maintenance spans	The total count of spans in the network that are subject to vegetation management practices in the relevant year. If a DNSP records poles rather than spans, the number of spans is the number of poles less one.	Ergon Energy can supply the total count of spans scheduled for 'vegetation management practices in the relevant year' back until financial year 2008/09, however data confidence and availability decreases beyond (prior to) 2009.
Total number of urban and CBD vegetation maintenance spans	The total count of spans in CBD and urban areas that are subject to vegetation management practices in the relevant year.	Ergon Energy can supply the total count of spans scheduled in 'urban areas that are subject to vegetation management practices in the relevant year', broken down into Rural and Urban. Information is not collected in CBD areas separately. Refer above comment above regarding historical data

Variable	Definition	Ergon Energy comments
		provision (accuracy / confidence).
Total number of rural vegetation maintenance spans	The total count of spans in rural areas that are subject to vegetation management practices in the relevant year. Rural spans include spans in rural short and rural long feeders.	Ergon Energy can supply the total count of spans scheduled in 'rural areas that subject to vegetation management practices in the relevant year'. Refer above comment above regarding historical data provision (accuracy / confidence).
Total number of spans	The total count of spans in the network in the relevant year.	Ergon Energy don't keep a history of changes to spans in Smallworld design actions. However, it may be possible to determine historical values from the number of vertices in the conductor geometry, or estimate it from the number of poles.
Average CBD and urban vegetation maintenance span cycle	The overall average planned number of years between which cyclic vegetation maintenance is performed in CBD and urban areas. This can be calculated based on a simple average of all the urban vegetation maintenance span cycles.	Ergon Energy can provide information requested with confidence from 2009/10 onwards only. Confidence in accuracy decreases prior to this date.
Average rural vegetation maintenance span cycle	The overall average planned number of years between which cyclic vegetation maintenance is performed in rural areas. This can be calculated based on a simple average of all the rural vegetation maintenance span cycles.	Ergon Energy can provide this information with confidence from 2009/10 onwards only. Confidence in accuracy decreases prior to this date.
Average number of trees per CBD and urban vegetation maintenance span	The estimated average of the number of trees within CBD and urban vegetation maintenance spans. An estimate can be based on the DNSPs defect records, scoping records or field surveys.	Ergon Energy cannot capture, therefore cannot provide an estimate on the number of trees found within an average span. Even with our aerial LiDAR program (Roames), estimates on numbers of trees occurring within an average span is not possible as the technology is not able to accurately define individual trees. Furthermore, what is the AER definition of a "tree"? There are many different acceptable definitions. At best, Ergon Energy is able to provide is the number of trims and removals undertaken on an average span. This information is available on a urban/rural breakdown, but rural information is less accurate than urban, as most rural treatment is undertaken using herbicide methods which are recorded on a per hectare basis. Can AER define the distance from the Conductor to which is considered to be within the span? (ie. Out to 5m from

Variable	Definition	Ergon Energy comments
		clearance, or 10m or directly under the line between the two poles?) We do not have this information, and it is likely of little value for benchmarking, because number of trees does not immediately correlate to amount of work or risk exposure.
Average number of trees per rural vegetation maintenance span	The estimated average of the number of trees within rural vegetation maintenance spans. An estimate can be based on the DNSPs defect records, scoping records or field surveys.	Refer above comment.
Average number of defects per CBD and urban vegetation maintenance span	The average number of vegetation related defects that are recorded per vegetation maintenance span in CBD and urban areas in the relevant year. Where a vegetation defect is a reported/recorded non-compliance, or breach of, the applicable vegetation standard for any reason, and reported/recorded from any source (e.g. inspections, aerial patrol, LiDAR, staff, public, etc.).	Further info is needed as to how a *defect* is to be defined. Ie Is this a defect against Ergon Energy standards or against legal requirements? Safety only? Ergon Energy can provide "defect" information in terms of either recorded breaches of legislative requirements (DCM / P2 Defect process) or in terms of number of "intrusions" recorded within the Clearance space (utilising the Roames aerial LiDAR program). However, Roames-reported "intrusions" found within the Clearance space may not represent only one tree, and one tree can have multiple intrusions entering into the clearance space. Confidence in accuracy for this measure would not be high.
Average number of defects per rural vegetation maintenance span	The average number of vegetation related defects that are recorded per vegetation maintenance span in rural areas in the relevant year. Where a vegetation defect is a reported/recorded non-compliance, or breach of, the applicable vegetation standard for any reason, and reported/recorded from any source (e.g. inspections, aerial patrol, LiDAR, staff, public, etc).	Refer previous comment.
Tropical proportion	The approximate total number of vegetation maintenance spans in the Hot Humid Summer and Warm Humid Summer regions as defined by the Australian Bureau of Metrology Australian Climatic Zones map (based on temperature and humidity). The	The link provided did not work, rather Ergon Energy referenced: http://www.bom.gov.au/jsp/ncc/climate_averages/climate-classifications/index.jsp Using the Shapefile version of the map, Network Data is able to overlay the map in SmallWorld and extract the number of spans that occur in each Climate Zone.

Variable	Definition	Ergon Energy comments
	classification map is available at http://www.bom.gov.au/climate/environ/travel/map.shtml.	
Bushfire risk	The number of vegetation maintenance spans in high bushfire risk areas as classified by the local jurisdictional fire authority.	Ergon Energy is able to extract from its SmallWorld GIS the number of spans occurring within High Bushfire Hazard areas, as defined by the Queensland Rural Fire Service Bushfire Risk Analysis. Further work to improve fire hazard zone mapping is currently underway by the Queensland Government as part of the State Planning Policy revisions. As information from this revision becomes publicly available, Ergon Energy will remap bushfire hazard areas within Smallworld.

- Regulatory Asset Base

Instructions, Definitions, and Asset Categories relating to the RAB

Ergon Energy makes the following comments:

- The term "RAB asset classes" appears to have been used interchangeably with "RAB asset categories", where the later appears more appropriate, given the link to the Categories defined forthe purpose of the BM RIN. "asset classes" should be replaced in all instances, with "asset categories".
- Similarly, the term "Financial Information" appears to be used interchangeably with "Financial Data", the later being a defined term. "Financial Information" should be replaced in all instances with "Financial Data".
- Throughout, the term "DRAB0205 - Actual additions (recognised in RAB)" is referenced, however additions (in an accounting sense) relates to 'as commissioned' reporting. In the Draft BM RIN, worksheet 4 Assets (RAB) instructions currently request reporting on an 'as incurred' basis, which implies a requirement for CAPEX (not additions). It is recommended "DRAB0205 - Actual additions (recognised in RAB)" be redefined to request "Actual Capex".).
- Clarification is required on the inclusion of both Straight Line Depreciation and Regulatory Depreciation in the total asset base calculations for each asset category.
- Clause 1.1.2 of the Common Approach (direct attribution) requires RAB [financial] data to reconcile to a number of items. It is not clear if this is intended to require "any", or "all" items to be reconciled to. Of note, the current 10 year period for completion of the BM RIN would take Ergon Energy across three regulatory control periods (and determinations), two of which were by the jurisdictional regulator. It would include a RAB revaluation (under the prior regulator – 2004/05) and QCA Determinations on RAB, and an AER RAB-determination for the current regulatory control. These determinations individually, incorporated forecasts to differing extents. Service re-classifications have also occurred across these periods. An expectation is also set for use of the RFM-framework between determinations. Ergon Energy is yet to fully

outwork the implications of all these issues, particuly in relation to any requirement to 'reconcile' RAB [financial] data at specific (or many) points in the 10-year BM RIN timeline.

- Futher to this, Clause 1.1.2 requires for years where the AER has not made a decision on values for the RAB, RAB values must be prepared in accordance with the RAB framework. The use of a RAB Framework (effectively, requiring use of the RFM/handbook) appears in conflict to the requirement also to paragraph 1.3.1.a requirements to substitute actuals for forecasts in any determination made by the AER. The RAB-framework does not apply substitution of actuals for forecasts on a mid-period basis, only at resets as per 2.2 Adjustment for previous period sheet on the RFM Handbook.

- Clause 1.1.3(c) requires that for a RAB which has included capital contributions, then capital contributions should be reported in the Assets (RAB) sheet. Instructions appear to make clear that it is intended for Capital Contributions to NOT be reported within the asset category roll-forward values, rather ONLY in the single line item DRAB12. In this regard, it would be a 'reverse smear' by Ergon Energy from a total capital contributions amount, to apply a removal of the capital contributions from the asset values by asset category. Assumptions are necessary as capital contributions are not captured in Ellipse against assets, the monies are held as prepaid revenue in the balance sheet until commissioning and released to the Profit and Loss as revenue. Refer also prior comments regarding capex versus additions. It is also not clear if Revenue worksheets will take account of the treatement of capital contributions related assets under Ergon Energy's determinations (ie: revenue adjustment was applied in building block approach and unders/overs balancing of forecasts vs actuals occurs annually).

- As per prior responses, while it is generally noted that Ergon Energy has the ability to aggregate (i.e. map) actual capital expenditure into the proposed asset categories, significant aggregation of some existing categories may be required and as such there will be an obvious trade-off between consistency of reporting and meaningfulness of the analysis. Back casting of information is also likely to be problematic to the extent there have been changes to underlying asset categories over the years / regulatory control periods.

- Reconcilation to any Annual RIN reporting may not also be appropriate given RIN reporting may be at a total level or disaggregated by different asset categories (depending on prior determinations made against which Annual RINs are reporting outturn performance). Of note, previous (2010-12) and current (2012-15) annual performance reporting requirements to the AER require capex to be disaggregated as per the twenty-eight AER approved Standard Control Services (SCS) asset categories (system & non-system) relevant to the Final Determination (and RAB categories used therein) for Ergon Energy for the 2010-15 regulatory control period. In prior regulatory control periods similar asset categories were used for reporting to the Queensland Competition Authority (QCA).

- It is unclear if the templates are to be revised (as compared to the Draft BM RIN issued), other than for updating instructions and definitions (including asset categories) relating to the RAB provided by the AER. In this regard, Ergon Energy takes the opportunity to make the following additional comments:

    - It is unclear for what purpose rows 22-33 of worksheet 4, Assets (RAB) appear require an 'opening asset value' for each of the asset categories when this is also requested in

subsequent rows as part of the individual asset category roll-forward calculations. This appears to be duplication, and may cause confusion.

- Actual and Estimated Financial Information

The AER noted that given the draft BM RIN imposed different auditing and assurance obligations for *actual financial information* and *estimated financial information*, submissions suggested greater clarity was required as to what is 'actual' information and what is 'estimated' information.

In response to the AER developed the following definitions, Ergon Energy supports the ENA's further submission made on the BM RIN (5 November 2013), which noted alternative proposed definitions for 'actual' and 'estimated' information.

Ergon Energy also reiterates comments made in prior submissions, that the AER must acknowledge the data gaps or estimations that will be required to occur for a period of time going forward, whilst systems and process are reviewed and upgraded and new methodologies implemented (if appropriate). ENA also made reference to this, noting estimated financial information *can potentially arise in any year, especially where the AER may introduce new or changed cost categorisations or where data collection systems may not have been designed or exist, to meet the AER's requirements.*