



Final decision

**Electricity transmission network service providers
Information guidelines**

September 2007

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Contents

Shortened forms	iv
1. Introduction	1
2. Rule requirements	2
3. Purpose and objective of the guidelines.....	4
4. The nature and reasons for the guidelines	5
5. Issues raised in submissions and the AER's response.....	6
5.1 The role and purpose of the guidelines and its information collection requirements.....	6
AER response.....	7
AER decision	8
5.2 Audit provisions.....	8
AER response.....	9
AER decision	9
5.3 Safe harbour provisions	9
AER response.....	9
AER decision	9
5.4 Map of the network.....	9
AER response.....	10
AER decision	10
Appendix A: Other issues.....	11
Appendix B: Information guidelines.....	15

Shortened forms

AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
ETNOF	Electricity Transmission Network Owners Forum
NEM	National Electricity Market
TNSP	Transmission network service provider

1. Introduction

The Australian Energy Regulator (AER) is responsible for regulating the revenues of transmission network service providers (TNSPs) in the National Electricity Market (NEM) in accordance with the National Electricity Law (NEL) and the National Electricity Rules (NER).

The information guidelines (the guidelines) sets out general guidance and protocols underlying the collection of information and cover a range of information requirements as specified under chapter 6A of the NER.

The draft information guidelines and the associated explanatory statement were released in June 2007 for public consultation. In developing this final decision, the objectives of the NEL and NER and the submissions received were considered.

The AER received three submissions to the draft guidelines. This final decision addresses the issues raised in the submissions, but no substantive changes were made to the guidelines.

2. Rule requirements

Chapter 6A of the NER sets out various requirements relevant to the AER's preparation of guidelines and to a TNSP's submission of annual reporting and other ad hoc information to the AER.

Clause 6A.17 of the NER details the information disclosure requirements for TNSPs. Clauses 6A.17.1(b) and (c) require a TNSP to submit to the AER

- certified annual statements and
- any additional information the AER reasonably requires under clause 6A.17.1(d)

in a manner and form specified by the AER in the guidelines.

Clause 6A.17.1(d) provides that the AER may only use the certified annual statements and additional information provided by a TNSP for the following purposes:

- (1) to monitor, report on and enforce the provider's compliance with the total revenue cap for a regulatory control period, the provider's maximum allowed revenue for each regulatory year, and any requirements imposed on a provider under a transmission determination
- (2) to monitor, report and enforce compliance with the TNSP's cost allocation methodology
- (3) as an input of the provider's financial, economic and operational performance to inform the AER's decision-making for revenue determinations or other regulatory controls to apply in future regulatory control period and
- (4) to monitor and report the provider's performance under any service target performance incentive scheme that applies to it.

Clause 6A.17.2(e) requires that:

the information guidelines may only require the inclusion in the certified annual statements of:

- (1) such information as the AER reasonably requires for a purpose set out in clause 6A.17.1(d)
- (2) information on the amount of each instance, during the relevant reporting period, of a reduction under clause 6A.26.1(c) in the prices payable by a transmission customer for prescribed TUoS services or prescribed common transmission services provided by the transmission network service provider
- (3) information on each instance, during the relevant reporting period, of a reduction in the prices payable by a transmission customer for prescribed TUoS service or prescribed common transmission services (or both) that

were recovered under rule 6A.26 from other transmission customers for prescribed TUoS service or prescribed common transmission services and

- (4) information to substantiate any claim by the transmission network service provider that the information provided to the AER about reductions in the prices payable by the transmission customer for the relevant prescribed transmission services under subparagraph (2) or (3) is confidential information.

Clause 6A.17.2(f) states that:

The guidelines may provide for the information that must accompany a written statement seeking approval of the AER to pass through a positive pass through amount of a negative pass through amount under clause 6A.7.3.

Clause 6A.17.2(g) provides that the guidelines may specify the information that a TNSP must submit with any application for approval to recover a 'proposed recovery amount' in accordance with clause 6A.26.2 of the NER.

Clause 6A.17.2(h) provides that the guidelines may contain specific information relevant to TNSP's billing and prudential requirements as well as dealings between multiple TNSPs within a region.

3. Purpose and objective of the guidelines

The AER has prepared the guidelines for the electricity transmission sector. The guidelines are based on the AER's existing information requirements guidelines, with amendments and additions made to take account of the requirements of chapter 6A of the NER.

The guidelines detail the basis on which TNSPs must provide annual and other ad hoc information to the AER during the course of a regulatory control period. This information is separate from that which a TNSP must provide under the NER as part of its revenue proposal or negotiating framework. The latter requirements are separately dealt with in the AER's submission guidelines. It should be noted, however that, the two guidelines share a number of common elements, particularly in the reporting of historic capital expenditure (capex) and operating expenditure (opex) information. It is an objective of the AER to reduce the regulatory burden on TNSPs by collecting as much of the revenue reset information on an annual basis.

4. The nature and reasons for the guidelines

The guidelines set out the manner and form in which, and date by which, TNSPs should submit the following information to the AER:

- certified annual statements
- service performance information
- any additional information that the AER reasonably requires for a purpose set out under the NER.

The guidelines also detail the information that a TNSP must provide:

- when seeking the approval of the AER to pass through a positive pass through amount or a negative pass through amount
- a reduction in prices under clause 6A.26.2(b) of the NER and cost allocation among TNSPs.

The purpose of the guidelines is to provide greater up-front certainty to regulated businesses on the types of information that will be relevant to the AER's needs and to streamline this process as much as possible. As with the related submission guidelines, this will facilitate better informed and more timely decision-making, which will promote the broader NEL and NEM objective.

Stakeholders should note that the guidelines share common historical cost templates with the AER's submission guidelines. In so doing, the guidelines provide an important means by which the AER can monitor, report and enforce compliance with its transmission determinations on an annual basis.

5. Issues raised in submissions and the AER's response

Interested parties raised four main issues, stating that the draft guidelines:

- are inconsistent with their intended purpose and role
- required an audit of information that may be overly burdensome
- should establish safe harbour provisions
- required a TNSP to provide a highly detailed current map of the network.

Appendix A contains a discussion and the AER's response to other issues raised in submissions, all of which can be found at the AER's website: www.aer.gov.au.

5.1 The role and purpose of the guidelines and its information collection requirements

The submission made by the Electricity Transmission Network Owners Forum (ETNOF) stated that much of the information sought in the draft guidelines was irrelevant for revenue cap purposes. Furthermore, given the limited purposes of the guidelines, ETNOF considered that TNSPs should only be required to provide capital and operating expenditure information. In its submission, ETNOF also provided a suggested structure and content for the guidelines templates.

ETNOF also stated that the draft guidelines lacked clarity in several areas and questioned the AER's power to request additional information at a later date.

As with the submission guidelines, ETNOF also stated that the requirements of the draft guidelines that TNSPs provide substantial information on historic capital expenditure is excessive under the new ex ante regime.

ETNOF stated that they were concerned that the fundamentally different analysis required by the ex ante regime compared to the ex post regime has not been reflected. Similar to its response to the submission guidelines, ETNOF stated that the draft guidelines proposed the continued provision of very detailed information about past capital expenditure, even though it is of little consequence to the revenue review.

Specifically, ETNOF stated that they could not foresee how information on specific past capital expenditure projects could be justified in this regard except for those TNSPs that are yet to be subject to an ex post review, in which case it should be a transitional matter and the guidelines should recognise it as such.

Energex raised concerns regarding the level of detail required by the draft guidelines, and the need to balance the benefits of this level of reporting with the costs involved.

EnergyAustralia stated that the information relating to the historic capital and operational expenditures was information already provided in a reset application and that this was a duplication of the obligation to disclose. This is part of

EnergyAustralia's overall proposal to remove many of the information guidelines templates (and disclosed information) and replace them with a much smaller group of templates, largely dealing with capex and opex outcomes. EnergyAustralia stated that their primary focus is to develop distribution guidelines in this area. The AER intends to discuss these matters further during the consultation on the distribution guidelines.

AER response

Information provision by regulated businesses is fundamental to the regulatory process. Timely, robust regulatory decisions depend on the efficient provision of adequate information to the regulator. The AER considers that adopting a proactive approach, with much of the required information provided upfront and on an annual basis, will help to avoid costly delays and provide consistency and greater certainty to the market.

In developing the guidelines, the AER has sought to balance its need for adequate, targeted information with the costs to a business to collect and provide this information. An additional benefit is that the annual collection of information on the financial, economic and operational performance of TNSPs will reduce the information and collection burden on businesses as part of their five-year resets. More generally, the AER will continue to monitor the need and relevance of the information as it becomes more experienced with the use of these and related submission guidelines under the new chapter 6A rules.

The AER considers that the information requirements contained within the guidelines are essential for the making of revenue determinations or other regulatory controls to apply in future regulatory control periods. As detailed within the AER's draft guidelines explanatory statement, each template will be used as an input regarding the financial, economic and operational performance of the provider, including compliance with the revenue cap determination under NER clauses 6A.17. This information will facilitate the identification of trends and assist the AER's understanding of the regulated business.

The AER considers that the provision of information on historic capital expenditure is a necessary component of the revenue proposal process, but this is not in any way related to the need or otherwise of an ex post assessment. The historic capital expenditure, while not subject to the same level of review under an ex ante regime as under an ex post regime, is still required by the AER for the following reasons:

- It is important that the AER and its consultants are able to use the information to analyse the relationship between cost drivers and their effect on project costs. Examining the actual and estimated costs of a representative range of completed projects can help the AER understand how costs may change in the future.
- The project-specific templates also allow the AER to select individual regulatory test assessments for appraisal.
- The information is used:
 - to provide assurance on arithmetic accuracy to verify the opening RAB

- to provide an understanding of past expenditure trends (e.g. replacement, large projects) and
- to ensure that past expenditure is not included in forecast expenditure.
- Historic information on asset classes is needed for depreciation calculation for the asset base roll-forward model.
- There is a need for this information for transitional purposes in the case of TSNPs that have not yet had a revenue reset.
- The information presents as a general test of the TNSP's forecasting ability.
- This information is necessary to fulfil an obligation on the AER under the NER to assess historic costs against the original forecasts when determining if the AER is satisfied with the new forecasts provided by the TNSP.

The guidelines do not require a TNSP to justify expenditure. For example, the guidelines do not seek information on the reasons why a project was undertaken. As such, the guidelines do not require the same level of information as the capex prudence assessment under the draft regulatory principles.

The AER has kept the structure of the existing financial reporting templates, albeit with some minor changes, to allow for consistency with the existing information requirement guidelines to provide TSNPs with greater certainty.

The AER's long-standing approach to regulatory reporting is to support the ring fencing of prescribed (regulated) services from non-regulated services of the business, and thereby prevent cross-subsidisation of costs. Regulatory accounts are based on the TNSP's statutory accounts to reduce the financial burden on the businesses and to provide an audit trail of the two.

AER decision

The AER has retained the requirements for regulated businesses to provide information as outlined in the guidelines.

5.2 Audit provisions

Submissions received from ETNOF and Energex expressed concern about the draft guidelines' requirement for audit of supplied information, particularly the scope of the audit.

In relation to the scope of the audit, ETNOF stated that the audit obligations included in the draft guidelines had the potential to impose a significant regulatory burden on TSNPs without necessarily achieving a corresponding benefit. ETNOF further stated that the AER should:

- limit the scope of the audit
- specify that the auditor take, as given, a set of statutory accounts and

- permit for the same audit firm to be used as for the statutory accounts.

Both ETNOF and Energex were concerned with the audit of forecast expenditure.

AER response

The AER notes the concerns raised about the level of certainty provided by the draft guidelines. The AER seeks to achieve a balance between too much prescription in the guidelines and too little clarity. The AER will add additional information in the audit requirements to provide the additional certainty sought by the regulated businesses.

AER decision

The guidelines will provide additional detail regarding audit and assurance requirements for historic capex and opex information.

5.3 Safe harbour provisions

As with the cost allocation guidelines and the submission guidelines, ETNOF recommended that the guidelines should provide examples of proposals that the AER would accept, therefore establishing a ‘safe harbour’.

AER response

While the AER agrees that safe harbour provisions can be particularly useful in some circumstances, it does not consider that their use in the guidelines is appropriate. The AER notes that submissions requesting the use of safe harbour provisions provided very little detail on how they would benefit regulated businesses. The AER also notes that it is widely accepted by the interested parties that a ‘one size fits all’ regime is not appropriate due to the underlying differences in businesses’ structure and accounting and information systems. Therefore the use of safe harbours in the context of the guidelines does not seem to add value for individual businesses. The AER also notes that this matter was raised in 2006 during the AEMC’s review of chapter 6A of the NER and was not adopted in its final determination.

Finally, the cost-reporting templates already provide a great deal of flexibility to tailor them to a TNSP’s particular needs. The templates will reflect the business’ activities and information systems, allowing them to meet the AER’s information requirements without undue effort or cost.

AER decision

The AER does not intend to introduce the use of safe harbour provisions into the guidelines.

5.4 Map of the network

In their submissions, both ETNOF and EnergyAustralia conveyed that it was inappropriate for TNSPs to provide a map of their respective networks showing the tens of thousands of individual network elements.

AER response

The draft guidelines proposed that TNSPs be required to provide the AER with a current map of the TNSP's network to inform the AER's decision-making.

The AER notes the concerns raised about the level of reporting requirements proposed by the draft guidelines and the potential to place an additional burden on regulated businesses. However, TNSPs should note that the AER only require a high-level map of the network containing ratings of its transmission lines and the location of major network assets. Essentially, this information will facilitate the identification of trends and help the AER's understanding of the regulated business.

AER decision

The guidelines will provide further details regarding this requirement.

Appendix A: Other issues¹

Submissions were received from:

- Energy Australia,
- Energex
- Electricity Transmission Network Owners Forum (ETNOF)

ISSUE	PARTY	RESPONSE
<i>1. Guidelines are not consistent with their intended purpose and role</i>		
1.1 Purpose of the guidelines. The information a TNSP would be required to provide to the AER cannot reasonably be taken to satisfy the main purpose of the guidelines, which is to aid the AER's preparation of a TNSP's next revenue cap.	ETNOF	Please refer to the final decision paper.
1.2 Role of the guidelines. The guidelines lack clarity in several important areas.	ETNOF, Energex	Please refer to the final decision paper.
1.3 The structure of the guidelines can be improved	ETNOF	Please refer to the final decision paper.
<i>2. Other high-level issues</i>		
2.1 Audit provisions. TNSPs were concerned with: <ul style="list-style-type: none"> ▪ the scope of the audit ▪ the auditor accepting TNSPs current statutory accounts ▪ the use of audit firm ▪ the provision of work papers and other supporting material. 	ETNOF, Energex	Please refer to the final decision paper.

¹ Submissions containing all issues can be found on the AER's website, www.aer.gov.au.

2.2 Safe harbours. Consistent with the submission and cost allocation guidelines, the AER should provide examples of templates that it would accept.	ETNOF, Energex	Please refer to the final decision paper.
<i>3. Issues of detail</i>		
3.1 Duplication of requirement in other instruments.	ETNOF	The cost allocation guidelines have been amended to reflect the requirements under the information guidelines.
3.2 Role of these guidelines. Inconsistencies in different paragraphs within the draft guidelines with the explanatory statement.	ETNOF	The information guidelines have been amended to provide further clarity.
3.3 Accounting principles and policies requirements.	ETNOF	This paragraph has been removed from the guidelines.
3.4 Information to be provided shall be verifiable. The AER should consider revising this clause to make it more definitive.	ETNOF	The information guidelines have been amended to provide further clarity
3.5 Depreciation. Several amendments to the clause 4.5 of the guidelines were suggested.	ETNOF	<p>Agree. Clause 4.5 has been amended to read:</p> <p>Depreciation charges should be attributed to business segments in accordance with the disaggregation of assets that give rise to these charges.</p> <p>Regulatory adjustments shall be made to state the regulatory depreciation charge attributed to the prescribed services segment.</p>
3.6 Extraordinary items requirement should be removed.	ETNOF	Agree. This requirement has been removed from the templates.
3.7 Definitions. The definition of related parties appears to be inconsistent with the accounting standards.	ETNOF	The AER considers the definition appropriate. It allows exclusion in a number of instances, but also captures dealings that may not be at

		arm's length. The definition has been in place since 2002 and is well known to TNSPs.
3.8 Pro forma sheets. It was suggested that several templates should be removed from the information requirements.	ETNOF	Please refer to the final decision paper.
<i>4. Other issues—including additions and removing templates</i>		
4.1 The removal of certain spreadsheets due to the duplication of reporting requirements in other instruments.	EnergyAustralia	<p>The AER's response regarding the removal of the capital and operating expenditure templates are discussed in the final decision paper.</p> <p>Regarding the duplication of information disclosure with the cost allocation guidelines, the level of details required (as per the cost allocation guidelines) in the cost allocation methodologies will only need to be sufficient to enable the AER to replicate the reported outcomes. The audit of the financial statements will verify whether the cost allocation methodologies have been complied with. In essence, these spreadsheets are a secondary level of checks and balances that the AER will use to verify that TNSPs have complied with their approved cost allocation methodologies.</p> <p>The AER does not agree that there is duplication in the reporting requirements with other guidelines.</p>
4.2 Infeasible obligations.	EnergyAustralia	The AER intends to discuss this further with EnergyAustralia. However, the AER does not intend to remove this template from the information guidelines as other TNSPs are able to comply with its requirements.
4.3 Obligations supported by the AER's financial models.	EnergyAustralia	While there may be merit in revising the existing models and guidelines, however, given the statutory deadline and the magnitude of work involved in revising, consulting and

		implementing, the AER does not consider this to be appropriate at the final stage of this development.
4.4 Ad hoc obligations.	EnergyAustralia	Where a TNSP cannot comply with the reporting requirement of a particular template due to a trigger event, e.g. the TNSP does not have a cost pass through, the template should be marked 'not applicable' and reason(s) should be given as to why the template does not apply.

Appendix B: Information guidelines