



28 January 2011

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Via email: aerinquiry@aer.gov.au

Dear Warwick,

Discussion paper: Objectives and priorities of electricity NSP performance reports

This submission is in response to the AER's *Discussion Paper: Objectives and priorities of electricity NSP performance reports* published in December 2010.

The AER currently publishes performance reports for Transmission Network Service Providers (TNSPs) and an existing set of objectives and priorities, published in March 2009, currently applies to TNSP reporting. This operates in conjunction with the Transmission Information Guidelines which set out the nature and form of the information to be reported annually to furnish the AER's Annual Transmission Regulatory Report, including regulatory financial statements.

The AER is now seeking to issue a single set of objectives and priorities which will apply to both TNSPs and Distribution Network Service Providers (DNSPs) as it is now responsible for publishing performance reports for both of these sectors under the National Electricity Law (NEL). As such, the AER intends that these revised objectives and priorities will supersede the existing TNSP reporting objectives and priorities.

Grid Australia considers that a number of the AER's proposed objectives and priorities widen the intent and scope of information to be reported in transmission performance reports. Such changes should be fully assessed as to their necessity, appropriateness and demonstrated net benefit to the market before being considered for adoption. Grid Australia is also particularly concerned that the AER's proposals in relation to establishing benchmark expenditure and identifying areas for more detailed review at a revenue reset have the potential to be an inappropriate use of such high-level performance information.



Further, if priorities differ between electricity transmission and distribution reporting it may be appropriate to issue separate objectives and principles to apply to each sector in order to ensure the scope and type of information reported is necessary and meaningful.

More detailed comments in relation to the proposed objectives and priorities are attached.

Should you require any further clarification or elaboration on any of the matters raised in this submission, please do not hesitate to contact Anh Mai in the first instance on (03) 9695-6627 or via email at anh.mai@sp-ausnet.com.au.

Yours sincerely,



Rainer Korte
Chairman
Grid Australia Regulatory Managers Group

Objectives and Priorities of Electricity NSP Performance Reports

Response to AER Discussion paper

28 January 2011

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1. Introduction and Overview

This submission is in response to the AER's Discussion Paper: Objectives and priorities of electricity NSP performance reports published in December 2010.

A number of the proposed objectives and priorities are new or widen the intent and scope of information to be reported in transmission performance reports. Some new priorities will also necessitate amendments to the Transmission Information Guidelines to allow for the collection of additional information. As additional reporting requirements will likely lead to additional administrative costs, changes to the performance reporting regime should be fully assessed as to their necessity, appropriateness and demonstrated net benefit to the market before being considered for adoption.

2. Objectives

The Discussion Paper proposes four objectives, compared to the two that currently apply to TNSPs which are to:

- provide transparency; and
- maintain accountability to provide an incentive to increase performance.

Issues in relation to a number of the proposed objectives are discussed in turn below.

2.1 Improve the effectiveness of regulation

This is a new objective which Grid Australia supports. It is expected that publishing meaningful regulatory information will educate stakeholders on the NSPs' performance and the outcomes of regulatory processes. This information is aimed at encouraging a greater understanding of, and participation in, future regulatory processes and lead to greater effectiveness of the regulatory framework.

Grid Australia notes that if the report is to contain meaningful information to enhance regulation, the information must be made available to stakeholders in a timely manner to ensure its relevance. To this end, target timeframes may be useful to ensure timely publication and reduce delays. Grid Australia notes that the 2008/09 TNSP performance report was not published until December 2010, some 14 months after TNSPs had submitted the relevant information. Further, the delay in the publication of the AER's Annual Transmission Regulatory Reports has been growing over time.

There is the risk that adding DNSP data to the report (or an equivalent report) and undertaking additional benchmarking will increase the delay in publication, compromising the relevance of the information once it is published. Therefore, the

AER may wish to keep the transmission and electricity NSP regulatory reports separate to ensure relevance and timeliness.

2.2 Improve performance

This is a new separate objective whereas in the past, maintaining accountability and improving performance were linked as one objective. The Discussion Paper envisages that amongst other things, performance reporting will provide benchmarks which may be applied by the AER when undertaking future transmission or distribution determinations to identify areas for more detailed review. This is a new benchmarking objective which is also included in the AER's proposed list of priorities. This issue is addressed further below.

2.3 Transparency

While this is an existing objective for TNSP reporting which is supported, Grid Australia questions the commentary in the Discussion Paper that 'reporting on the NSPs' expenditure, investment decisions and service levels... will provide an insight into the NSPs' business practices and decision making.' (p5 of the Discussion Paper)

It is important to recognise that regulatory reporting is designed to provide disclosure of certain targeted information to assist the AER in assessing an NSP's performance against its regulatory allowances and compliance with the Rules without imposing undue burden and costs onto the business. As a result, the information provides limited insight into internal decision making and the business practices of individual NSPs. Such decisions and processes are much more detailed, complex and often commercially confidential, which is precisely why they cannot be simply inferred from high-level reporting data. The AER's investigation of such detailed matters appropriately occurs as part of a revenue reset process, at which time more detailed and, more importantly, more contextual information can be reviewed and understood at the same time.

3. Priorities

The Discussion Paper sets out the AER's eight priorities to achieve the above objectives, compared to the six that currently apply to TNSPs, which are:

- report on service performance;
- report on compliance with the TNSP's approved cost allocation methodology (CAM);
- report the profitability of TNSPs;

- report on performance against and compliance with revenue determinations in a format that allows for comparison between different jurisdictions and regulatory control periods;
- report information in a format that can be utilised for future revenue determinations, to reduce information asymmetry and make the revenue reset process more streamlined; and
- to assess whether the National Electricity Objective is being achieved.

Issues in relation to a number of the proposed priorities are discussed in turn below.

3.1 Report forecast and actual capex and opex

Grid Australia notes that forecast figures used in this context should continue to be taken from the relevant final AER decisions and adjusted for CPI. It should also be clear that forecast figures used are the final regulatory allowances, and not the TNSP's revenue proposal forecasts.

3.2 Report the NSP's forecast and actual outputs

This priority to report on inputs and outputs, including measures of network utilisation and asset age, and to identify areas of NSP performance that may be reviewed by the AER is new.

Grid Australia questions the appropriateness of the AER seeking to identify expenditure and performance issues to be addressed in regulatory determinations through the annual reporting function. Although annual regulatory reporting may illustrate how NSPs are tracking against regulatory allowances, the information required from TNSPs may not be in an appropriate form to enable properly informed observations to be made about forecast and actual outputs. In particular, the AER would effectively be identifying areas for further investigation based upon partial information at best.

Further, the TNSP Regulatory Report has to date not included information on network utilisation and asset age. Grid Australia notes that network utilisation is more relevant for distribution networks, while network capacity is more relevant to transmission. Moreover, in the absence of more detailed information about asset management practices for example, there is the potential for information on network utilisation and asset age to be misinterpreted and for stakeholders to draw potentially misleading conclusions. If new data is required to be provided by TNSPs then this will require the AER to review the TNSP Information Guidelines including undertaking public consultation in accordance with clause 6A.20 of the NER.

3.3 Report benchmark expenditure information

This new priority is to allow comparison of NSP performance over time and between NSPs, including in different jurisdictions. Grid Australia notes that while some benchmarking currently occurs in TNSP regulatory reports in the form of capex and opex by line length, capex by peak demand, capex and opex by average RAB, rigorous benchmarking based upon outputs such as network utilisation and asset age is not used.

Grid Australia questions whether this should be written as a performance reporting objective before a proper benchmarking approach is developed and implemented. To support a benchmarking objective, it is necessary for the AER to articulate how benchmarking, the transmission information guidelines and annual reporting will work together. While it has long been envisaged that the AER would develop benchmarking to inform its revenue and price resets, it is preferable to have a benchmarking approach decided (with clear and robust measures to ensure benchmarking information is consistent and meaningful) before committing to benchmarking as a priority for these reports.

Grid Australia notes that benchmarking, even where designed appropriately, may have limited relevance to transmission businesses due to the physical and topographical differences between transmission networks. As such, this may need to be reflected in the objectives and priorities for performance reports.

3.4 Report and compare network operations, including service standard levels and demand management information

The priority to report demand management information is more relevant to distribution than transmission as TNSPs are not subject to demand management incentive schemes (excepting TransGrid which is subject to jurisdictional requirements). Further, Grid Australia notes that TNSPs are already required to publish Regulatory Investment Test – Transmission (RIT-T) reports which discuss the consideration of alternative options including demand management options.

The inclusion of this new priority would lead to required amendments to the TNSP Information Guidelines including undertaking a public consultation process.

Grid Australia also notes that information on network operations and maintenance and service standard levels is already reported in some detail to the AER.

3.5 Report comprehensive, accurate and reliable information, enabling stakeholders to undertake analysis of performance and have confidence in the results of that analysis. Provide information over time to enable trends to be identified and comparisons of changes in performance, outputs and expenditures to be made between NSPs.

This is a new priority which Grid Australia supports in principle. However, Grid Australia recommends that to support this priority, TNSPs should be afforded final sign-off on regulatory reports to ensure accurate and reliable information is published. In Grid Australia's experience, errors found in the draft regulatory reports which are brought to the AER's attention may remain uncorrected in the published final report. In addition, further errors may be introduced between the draft and published report. Without final sign-off by the NSPs the accuracy of the data within the published report cannot be guaranteed.

3.6 Report the NSPs' profitability, comparing businesses within and across jurisdictions and regulatory control periods.

This priority needs to be appropriately qualified because regulatory reports cannot capture the complete profitability of NSPs given the reported information only relates to prescribed service revenues and financing arrangements. Businesses may have other sources of profit beyond prescribed transmission services. This limitation is reflected in Section 28V of the NEL which states that the report may deal with 'the profitability of network service provider *in providing electricity network services*.' Furthermore, there is a distinct difference between accounting profit and economic (regulatory) profit. Grid Australia therefore recommends rewording this commentary to reflect the limitation of the data.

3.7 Report information that can be utilised for future distribution determinations, including information on cost drivers, expenditure trends, service levels and variations in network performance.

Grid Australia notes that this priority specifically refers to information that can be utilised for future distribution determinations, which is presumably aimed at both transmission and distribution determination. The AER may wish to clarify if this only applies to distribution.

4. Conclusion

Grid Australia notes that a number of the proposed objectives and priorities widen the intent and scope of information to be reported in transmission performance reports. Such changes should be fully assessed as to their necessity, appropriateness and demonstrated net cost/benefit to the market before being adopted.

If priorities differ between transmission and distribution reporting it may be appropriate to issue separate objectives and principles to apply to each sector in order to ensure the scope and type of information reported is necessary and meaningful.

It is recommended that the AER consider and address the issues identified in this paper to ensure that the transmission reporting regime is appropriately designed.