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By email: expenditure@aer.gov.au

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Networks (Vic) Ltd
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Mr Chris Pattas
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Dear Chris,

Draft category analysis regulatory information notice (RIN)

Jemena Electricity Networks (Vic) Limited (**JEN**) welcomes the opportunity to respond to the Australian Energy Regulator's (**AER**) email of 6 December 2013, requesting comment on the draft category analysis regulatory information notice (**RIN**). JEN contributed to and supports the Energy Networks Association's (**ENA**) submission in response to the draft RIN.

JEN appreciates the AER's consultation process and the progress made to date, particularly the pragmatic changes made since the original draft. While a number of issues have now been resolved, the current draft of the RIN still poses a number of material issues from JEN's perspective.

JEN's key concerns are:

1. The statutory declaration should not require an assurance of "true and accurate" for actual information, as this is inconsistent with the corresponding audit standard. The assurance should be amended to "true and fairly stated".
2. Businesses should be able to identify those areas where they have little information upon which to make a reasonable estimate, and so should only be required to provide a 'reasonable estimate' for those sections, rather than their "best estimate". In some instances a business will not be able to express a view on whether its estimate is a "best estimate", as there is no way of testing the accuracy of the estimate, or the relative accuracy of different approaches. Also, where it is not clear how the estimated information will be used by the AER, a business may not be able to express a view as to whether the estimate produced is the best estimate for the AER's (unknown) purpose.
3. The timeframe in which to respond to the final RIN is unreasonably short. JEN proposes to extend the timeframe to match that allowed for the economic benchmarking RIN.
4. The current categorisation and collection of internal labour costs in the RIN is one that will not yield the AER with a useful outcome. JEN proposes a more

intuitive approach to provide the AER the internal labour costs it needs to conduct expenditure category benchmarking analysis.

5. The outage classifications under the supply interruptions template can be improved. JEN proposes an alternative approach to assess the relative efficiency of networks' vegetation management.
6. JEN proposes some appropriate thresholds be applied to template 5.4 Maximum demand and utilisation at spatial level.

Further details on JEN's recommendations are set out in **Annexure 1**, which discusses the points noted above, in more detail.

JEN appreciates the work that the AER has undertaken in developing the draft category analysis RIN and explanatory statement and looks forward to continuing to work with the AER as it develops the final category analysis RIN. We would be pleased to discuss our submission further with the AER.

If you have any questions in relation to this submission, please contact Thomas Allen on (03) 8544 9432 or by email thomas.allen@jemena.com.au.

Yours sincerely



Robert McMillan
General Manager Regulation
Jemena Limited.

Annexure 1

Jemena Electricity Networks (Vic) Ltd (JEN) response to the draft category analysis regulatory information notice (RIN)

JEN's key concerns with the draft RIN are explained in further detail below:

1. *The statutory declaration should not require an assurance of “true and accurate”*

1.1 JEN's issue

JEN proposes the current “true and accurate” assurance requirement for actual information in the statutory declaration be amended to “true and fairly stated” on the basis that the current drafting is unreasonable and inconsistent with the audit standard¹.

1.2 The statutory declaration should reflect the audit standard

The audit standard for actual information under the RIN requires the auditor to be satisfied the information provided is “...free from material misstatement...” and “...a fair presentation...(of the information)”. In fact, nowhere within the audit standard is there a requirement that information be accurate. The reason ‘accuracy’ does not appear in the audit standard is because the very nature of financial information is that assumptions are often required, thereby creating multiple valid answers rather than a single true and accurate answer. Financial professionals (both, external auditors and Jemena’s internal accountants), are not in a position to provide a “true and accurate” assurance.

The Officer of JEN, who is required to sign the statutory declaration, cannot reasonably rely on the audit opinion when making the declaration that the information is “true and accurate”, as the audit is based on a different assurance. Also, an assurance of accuracy requires there to be a single ‘correct’ answer—however the very nature of financial information is such that reasonable assumptions are required as information is often not absolute.

JEN's responses to annual RIN's for years 2011, 2012 and its current response for 2013, all have audited financial information, with an assurance of “true and fairly stated”. Furthermore, Jemena’s statutory reporting obligations are also based on an assurance of “true and fairly stated”.

If JEN were forced to provide a statutory declaration with an assurance of “true and accurate”, JEN's Officer faces a difficult choice—to make a statutory declaration they cannot be sure is true and correct and potentially face penalties for perjury, or amend the statutory declaration to reflect the assurance they can provide, risking potential non-compliance with the RIN.

¹ Auditing Standard ASA 805 Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

1.3 JEN's recommendation

JEN proposes the wording in the statutory declaration be modified to “true and fairly stated”, with respect to actual information. JEN is confident that this assurance still provides the AER with an appropriate level of assurance, which is universally accepted for financial statements, and is an assurance that auditors and JEN's internal management can confidently provide.

2. A “best estimate” cannot be provided in all cases, in some cases only a “reasonable estimate” is appropriate

2.1 JEN's issue

JEN considers it unreasonable for the AER to request network service providers (NSPs) to provide their “best estimate” of historical information, especially where the NSP has no visibility as to how the estimate will be applied or interpreted.

JEN identified in its submission to the AER on the draft expenditure forecast assessment guideline² those areas of the RIN where it can provide actual data and those where it can provide only estimates. JEN identified these areas with a colour-coded version of the AER's pre-draft category analysis templates. While some of the information requirements in the pre-draft RIN were removed when the draft RIN was published, there are still areas requested, which JEN colour-coded as red—ie. JEN has access to little or no actual data and is not aware of any estimation techniques that can be used for this data, or JEN has no way of knowing how accurate any estimate may be. JEN staff are unable to provide assurance on the data and estimates, which means neither audit report, nor a statutory declaration can be issued.

In its submission JEN noted that:

“While attempts can be made to estimate the data retrospectively, in most cases, Jemena staff would have insufficient confidence in the resulting retrospective estimates to provide assurance to Jemena's Managing Director, Board of Directors, or auditors that the retrospective estimates:

a. are appropriate

b. can be relied upon by the AER for the intended purpose.”³

JEN is making every attempt to provide the AER with the information requested. However, there are a number of sections in the RIN which request information that JEN does not maintain, or has never collected. JEN has little or no basis upon which to make a reasonable estimate, or one that could be relied upon by the AER to inform regulatory decision making. JEN requests that where it can identify these areas in its ‘basis of preparation’ document, it should only be required to provide a reasonable estimate—as opposed to its best estimate.

² Jemena submission on AER draft forecast assessment guideline, 20 September 2013

³ Ibid, p2

2.2 The difficulty in providing a “best estimate”

Where a business must make an estimate, there are usually a number of ways to provide one. Each option may also result in a different outcome—ie. a different conclusion derived from the estimate. It can be impossible to provide a “best estimate”, if the business making the estimate has no visibility as to how the information will be used. Depending on the purpose for which the information will be used, different techniques may be better suited to producing appropriate estimates. This issue is further compounded by the fact that, in many instances, JEN has no ability to test the accuracy of its estimation techniques.

The other consideration is that the AER’s reliance on the provision of estimated information—particularly in the circumstance explained above, where a business is not in a position to validate the basis of the estimate—could undermine the credibility of the AER’s regulatory determination process.

2.3 JEN’s recommendation

JEN proposes that NSPs should be able to identify in their basis of preparation documents those areas where there is little or no historical data maintained and only a weak basis upon which to make an estimate. Once identified, these estimates should be provided as reasonable estimates only—not “best estimates”.

3. Tight timeframe for completion of the category analysis RINs

3.1 JEN’s issue

The timeframe in which JEN must respond to the final category analysis RIN, is unreasonably short. JEN recommends the deadline for submission be extended by six weeks to reflect the same timeframe allowed to respond to the economic benchmarking RIN.

JEN understands the AER will not issue the final until 7 March 2014. The current deadline to respond to this RIN is by 31 May 2014, a period of less than 3 months in which to respond to a significant, and new information request. The information requirements for the category analysis RINs are inherently more complex and onerous than for the economic benchmarking RIN, however, less time has been allowed. This places an enormous reporting burden on the business over an unreasonably challenging timeframe.

Consider that by June 2014, JEN—and the other NSPs in the National Electricity Market (**NEM**)—must respond to an annual RIN, an F-Factor RIN (for Victorian NSPs), a new economic benchmarking RIN and a new category analysis RIN. This is a significant incremental reporting burden on the businesses.

JEN understands that it has an obligation to provide the information on time and to a standard that can be relied upon for regulatory decision making—and it takes this obligation seriously. JEN also understands that the AER intends to use the

information collected from category analysis RINs to benchmark the expenditure proposals from the next round of price reviews in June 2014.

However, given the incremental reporting workload on the businesses this year and noting there are two new, significant RINs to respond to—JEN queries whether the annual and economic benchmarking RINs would provide the AER enough information to inform its comparative performance benchmark reports and be applied to the next round of price reviews and access arrangements, without the need to include category analysis benchmarks also.

Also, JEN's auditors have advised that they will need a period of up to six weeks to carry out the audit, allowing—at most—less than two months for JEN to prepare its RIN submission, and to go through internal quality assurance and sign-off processes.

3.2 JEN's recommendation

JEN proposes the AER extend the deadline from 31 May 2014 by six weeks to reflect the same timeframe allowed to respond to the economic benchmarking RIN.

4. *The current categorisation of internal labour costs will not yield any useful outcomes*

4.1 JEN's issue

JEN wishes to help the AER to develop of a more intuitive approach to collect internal labour costs, as the current categorisation is not one that JEN believes will yield any useful outcomes for the AER.

JEN understands the AER intends to collect internal labour costs in order to benchmark the baseline labour costs of performing typical asset management functions—like a replacement or augmentation project work. To do this, the AER has requested businesses separate all the direct labour, related party contracts and other contracts for each activity and then strip out all the overtime and allowances to retrieve the baseline labour cost.

Unfortunately, the approach requested in the labour tables of the RIN will not provide the AER with the best underlying labour cost trend to benchmark. JEN—and likely most of the other NSPs—does not capture labour costs in this way. JEN, as an entity, does not have any employees, as JEN contracts all its labour out. Therefore, under the current labour categorisation, all costs would appear under contracts and the direct labour component would be empty.

4.2 JEN's recommendation

JEN can provide the AER with the information it requires to conduct its benchmark analysis using an alternative and more intuitive approach to capture labour costs. JEN's approach would in fact reflect a fairer representation of JEN's labour costs by activity than if it were to attempt to allocate internal labour by the classifications in the current design of the labour templates.

At a high level, JEN's proposed approach is to access its payroll information and collect the average salary of related party staff that typically perform replacement or augmentation projects (or whatever the relevant activity is).

JEN understands that labour costs are an important input to conduct the benchmarking exercise the AER may wish to apply. JEN therefore proposes an alternative template design to capture labour costs and is happy to aid the AER in the design of more intuitive labour categorisations over the coming weeks.

5. A better indicator of vegetation management efficiency

5.1 JEN's issue

The AER's proposed codes of "Vegetation blow ins, fall ins and grow ins" will not identify the person responsible for the vegetation causing the fault. JEN considers that a better measure of vegetation management efficiency is for the AER to collect information regarding the person responsible for the vegetation that causes the supply interruption.

JEN is responsible for only a percentage of the vegetation that interacts with electricity infrastructure. Other Responsible Parties (**ORP**) such as Municipal Councils and private land owners have significant vegetation management responsibilities. In 2013, the majority of the supply interruptions on the Jemena Electricity Network were caused by vegetation that was the responsibility of ORP's.

Using the AER's proposed codes will not accurately represent the efficiency or effectiveness of JEN's vegetation management program.

For similar reasons, the AER's proposed codes "Fire starts - caused by vegetation grow-ins" and "Fire starts - caused by vegetation blow-ins and fall-ins" will not identify the responsible person for the vegetation that caused the fire start.

5.2 JEN's recommendation

In both cases JEN proposes codes such as Vegetation – JEN Responsibility, Vegetation – Other Responsible Person, Fire Start – JEN Responsible Vegetation and Fire Start – Other Responsible Person. These codes attribute the right proportion of supply interruptions to the responsible party and will therefore derive a better indicator of a network's vegetation management efficiency.

6. JEN recommends the AER apply appropriate thresholds to template 5.4 Maximum demand and utilisation at spatial level.

6.1 JEN's issue

Template 5.4 Maximum demand and utilisation at spatial level currently requests maximum demand data for every single element of the network. Providing a fully compliant response to template 5.4 would require JEN to produce over 300 occurrences of both the non-coincident and coincident tables, equating to 20 columns x 6000 rows of data.

This information requirement is enormous. JEN cannot see how the AER can justify requesting NSPs to provide this volume of data and how the benefits of such a request could possibly exceed the compliance cost to the businesses.

JEN doesn't historically calculate maximum demand on subtransmission lines, as the focus for network planning is zone substation maximum demand and distribution HV feeder maximum demand.

JEN could provide, with reasonable effort, non-coincident maximum demand at the zone substation level and for each distribution HV feeder, and coincident maximum demand at a zone substation level.

6.2 JEN's recommendation

JEN recommends that the AER revisit the information requirement of this template and apply a more appropriate threshold at which to request maximum demand data.

JEN recommends providing only maximum demand at the zone substation level (non-coincident and coincident) and at distribution HV feeder level (non-coincident only).