Ausgrid Endeavour Energy essential energy

20 September 2013

Mr Andrew Reeves
Chairman
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Mr Reeves

RE: Response to Draft Forecast Expenditure Assessment Guidelines

Ausgrid, Endeavour Energy and Essential Energy ('the NSW DNSPs') appreciate the opportunity to respond to the AER's draft guidelines for Forecast Expenditure Assessment. We support the ongoing and consultative nature of the AER's development of the guidelines and hope to engage the AER in bilateral discussions prior to the guidelines being finalised.

We refer the AER to the submission prepared by the Energy Networks Association (ENA), and endorse the detailed comments on the direction of the AER's draft guidelines. We note that the NSW DNSPs will be the first businesses subject to the guidelines. In light of this, our attached submission raises the following key issues that impact our 2014-19 determinations:

- We have concerns with the AER's stated approach to assessing capex and opex forecasts, including whether the approach gives sufficient consideration to a DNSP's proposal.

- We note that applying untried and untested assessment tools to the NSW determination process may potentially result in regulatory errors. We consider the AER should adopt a cautionary and consultative process to applying the tools in the short term.

- We cannot provide much of the information required by the AER in an auditable form, and as such we consider that the AER should only seek information that we can provide from a verifiable source in our systems. We also consider that any requirement to provide benchmarking data should occur following the submission of our regulatory proposals in May 2014 or, as a minimum, that all required benchmarking information be incorporated in the reset Regulatory Information Notice (RIN) to be submitted in May 2014.

Substantive concerns with the AER's assessment approach

We are concerned that the AER may use its assessment tools to set allowances, rather than to review the substance of a DNSP's proposal. In its explanatory statement, the AER notes that it may reject a DNSP's proposed expenditure if it is higher than the AER's counter-factual estimate, unless a DNSP can satisfactorily explain the differences. We consider such an approach does not give proper consideration to the Rules framework, which requires that the starting point for the AER's assessment is a DNSP's proposal.

There is a clear policy intent why the framework gives strong regard to the experience and judgements of the DNSP. Ultimately, our Directors are responsible for ensuring that customers receive a reliable supply of electricity, and that our workers and the public are kept safe from harm. In NSW, we place the utmost value on meeting our legislative and community obligations. As part of our processes to achieve compliance, we undertake detailed planning of our network to identify efficient and prudent forecasts of expenditure.

We believe our detailed forecasts should not be set aside and substituted with estimates produced by high level assessment tools. Benchmarks and predictive models do not have the necessary rigour to set an efficient forecast, as they do not adequately account for inherent differences between businesses or unique drivers of expenditure. We consider our view is consistent with the Productivity Commission's review of benchmarking in 2012 where it stated:

> *"At this stage, benchmarking - which compares the relative performance of businesses - is too unreliable to set regulated revenue allowances. Nevertheless, greater and more effective use of benchmarking could better inform the regulator's decisions.*[1]"

While we welcome thorough and meticulous reviews of our expenditure forecasts, we consider that such tools should only be used to target the AER's detailed review of a DNSP's forecasts. In making its decision on the efficient level of expenditures, the AER should weigh the probative value of the material before it, starting with the DNSP's proposal and giving due regard to the criteria and factors in the Rules.

Application of guidelines to NSW DNSPs

As the first DNSPs subject to the AER's guidelines, we wish to raise potential issues with their application to our 2014-19 determination process including:

- Procedural fairness – We note that the AER is still in the process of developing its models and techniques. This means that we will not have visibility on the nature of the tools that will be used at the time we submit our regulatory proposals. We will also not have sufficient time to identify errors or data quality issues that have occurred in the AER's application of the tools.

- Applying untested techniques to our determination - Our key concern relates to the use of untried and untested techniques to assess our capex and opex proposals. We consider that the AER should apply particular caution in applying techniques such as economic benchmarking and category analysis, which are likely to be plagued by data quality issues and model errors.

[1] Productivity Commission, Electricity Network Regulatory Frameworks, 9 April 2013, p3

- Arbitrary application of productivity dividends - We are concerned that the AER may use industry productivity factors based on economic benchmarking data to set allowances. We note that industry reform in NSW has led to active and aggressive targeting of efficiencies in our opex and capex at a granular level, and that estimates of productivity will form a key component of our regulatory proposals. We are concerned that the AER would mechanistically apply a further productivity dividend without considering the level of efficiencies we have incorporated into our forecasts.

In light of these issues, we encourage the AER to adopt a cautionary and consultative process to applying its assessment tools to our upcoming determination and place significant weight on "revealed costs" and the DNSPs' demonstration of efficient costs.

AER's approach for information gathering

We are concerned about the AER requesting information that we cannot provide to a high degree of accuracy. In previous consultations with AER staff, we have noted that our information systems are not capable of providing retrospective data required by the AER. We would also have difficulty in providing some of the forecast information in the categories set out by the AER. We consider that the AER should not include these data requests as part of its RINs.

In this respect, the AER should not apply a positive level of assurance on information which is based on estimates or approximations. We consider that the AER should impose less onerous review requirements.

Our view is that the AER should consider a more streamlined and tailored process to collecting information for the NSW DNSP resets. The AER should leverage reviewed information provided by NSW DNSPs in the past and limit information requests to data available in our systems. We also consider that the AER should merge its information requests into a single reset RIN, rather than collecting data through two processes. From a resourcing perspective, we also consider that the AER could seek information after the date our regulatory proposal is due, so that we are not concurrently finalising RINS and our proposals.

If you would like to discuss our submission further, please contact Mr Mike Martinson, Group Manager Regulation at Networks NSW on (02) 9249 3120 or via email at michael.martinson@endeavourenergy.com.au.

Yours sincerely

Vince Graham
Chief Executive Officer
Ausgrid, Endeavour Energy and Essential Energy

Draft Forecast Expenditure Assessment Guidelines

Joint submission of the NSW DNSPs

Our submission focuses on substantive concerns with the AER's decision making approach, the application of the guidelines to NSW DNSPs and the information requirements stated in the guidelines. We note that the Energy Networks Association (ENA) submission has provided more detailed comments on the AER's guidelines, and we endorse its recommendations.

Substantive issues with the AER's decision making approach

In the sections below we raise substantive issues with the direction of the AER's guidelines. We note that:

- The draft guidelines provide limited guidance on how the AER would apply its assessment tools to make its constituent decisions under clause 6.5.6 and 6.5.7 of the National Electricity Rules (Rules). We are concerned by statements made by the AER, which suggest that it will be using assessment tools in a deterministic way without squarely engaging with our regulatory proposal.

- In particular, we note that the AER's approach to assessing forecast opex does not give sufficient regard to the criteria and factors under clause 6.5.6 of the Rules. The AER is limiting its assessment to examining whether the DNSP's proposal accords with its own method of setting a base year, and only allowing for trend, step and productivity changes. We consider such an approach narrowly precludes proposed expenditure that is likely to satisfy the Rule requirements.

- We consider that the AER should place limited reliance on high level tools such as benchmarking and predictive models. Such tools should only be used to target more thorough review of a DNSP's proposal. To do otherwise may lead the AER to make erroneous conclusions, as the validity and robustness of such tools are very limited compared to the rigour and granularity of a DNSP's proposal.

1.1 Decision making does not accord with Rules framework

The role of the guidelines is to specify the approach the AER proposes to use to assess the forecasts of operating expenditure (opex) and capital expenditure (capex), and the information the AER requires for the purpose of that assessment.

We are concerned that the guidelines only provide limited information on the principles or process the AER would follow in making its decision under the Rules framework. The AER has not been clear on how its approach relates to its discretions under the Rules, or the fundamental principles of administrative decision making. Of most concern are comments such as:

> "...what we consider appropriate is a matter for our discretion and judgement.[2]"

In our view, the AER should methodically outline the principles underlying its assessment approach, and how these relate to making its decision consistent with Clause 6.5.6 and 6.5.7 of the Rules. In doing so, the AER should consider the policy guidance provided by the AEMC when undertaking its Rule change on Economic Regulation. Diagram 1 below provides a summary of key considerations or

[2] AER, Explanatory Statement: Draft Expenditure Forecast Assessment Guidelines, August 2013, p81

principles identified by the AEMC in its 2012 Rule determinations for the Rule change, which came into effect in November 2012.[3]

In our view, the current Rules framework requires the AER to reflectively contemplate the material put before it by the NSP, and weigh the probative value of that information relative to other material such as submissions and assessment tools undertaken by or for the AER. At all times, the AER's reasons must be bound by the criteria and factors in the Rules, and accord with the principles of a reasoned decision maker.

Diagram 1 - Key considerations or principles identified by the AEMC in draft determination for Rule change on Economic Regulation of Network Service Providers

Assessment process must start with a DNSP proposal	The proposal is necessarily the procedural starting point for the AER to determine a capex or opex allowance . The NSP has the most experience in how a network should be run , as well as holding all of the data on past performance of its network , and is therefore in the best position to make judgments about what expenditure will be required in the future. Indeed , the NSP's proposal will in most cases be the most significant input into the AER's decision.
The AER's assessment techniques in making its analysis are not limited	The NSP's proposal will in most cases be the most significant input into the AER's decision. Importantly , though , it should be only one of a number of inputs . Other stakeholders may also be able to provide relevant information , as will any consultants engaged by the AER . In addition, the AER can conduct its own analysis, including using objective evidence drawn from history , and the performance and experience of comparable NSPs . The techniques the AER may use to conduct this analysis are not limited, and in particular are not confined to the approach taken by the NSP in its proposal .
Consider the probative value of materials	To the extent the AER places probative value on the NSP 's proposal, which is likely given the NSP's knowledge of its own network, then the AER should justify its conclusions by reference to it, in the same way it should regarding any other submission of probative value .
The AER must accept a proposal that is 'reasonable'	The criteria require that the AER must accept a proposal if it is reasonable . The AEMC noted that the AER is not "at large" in being able to reject the NSP's proposal and replace it with its own . The obligation to accept a reasonable proposal reflects the obligation that all public decision makers have to base their decisions on sound reasoning and all relevant information required to be taken into account .
The test of 'reasonable' must equally apply to the substitute amount	While the AER must form a view as to whether a NSP's proposal is reasonable , this is not a separate exercise from determining an appropriate substitute in the event the AER decides the proposal is not reasonable . Both the consideration of "reasonable " and the determination of the substitute must be in respect of the total for each of capex or opex. The AER, whenever it determines a substitute for a NSP's proposal, is not constrained by the capex and opex criteria from choosing the best substitute it can determine .

While the AER have not clearly set out its assessment approach, we are concerned with the following statement made by the AER, which suggests that the assessment tools would form a baseline estimate, and that a DNSP would have to justify its forecasts in relation to that estimate:

> "If a DNSP's total capex or opex forecast is (or components of these forecasts are) greater than estimates we develop using our assessment techniques and there is no satisfactory explanation for this

[3] This is based on p102-103 of the AEMC's draft determination on the Economic Regulation of Network Service Providers Rule change. The draft determination was published in August 2012.

> difference, we will form the view that the DNSP's estimate does not reasonably reflect the expenditure criteria."[4]

We consider these statements are not consistent with the fundamental basis of the framework for economic regulation under the Rules, which gives considerable weight to a DNSP's proposal. As noted by the Australian Competition Tribunal in their 2009 decision for EnergyAustralia's application:

> "... this regime gives considerable weight to the business experience, calculations and judgments of the regulated entity."[5]

There is a clear policy rationale for why the DNSP's proposal is the necessary starting point for the AER's assessment. Our key role as a DNSP is to manage our assets and operate our network in accordance with our regulatory obligations to provide a safe and reliable network. This provides an expert view on our network on which to make planning and budget decisions.

In contrast, assessment tools such as benchmarks and predictive models are based on high level measures that do not provide accurate and robust estimates of likely expenditure. Our view is that such tools should be used as a high level check to target areas of detailed further review. This is further discussed in section 1.3 of this submission.

Our concern is the governance issues that arise from the AER potentially setting an opex and capex allowance that does not provide sufficient scope for our Directors and Executives to achieve our compliance obligations with respect to safety and reliability.

1.2 AER's approach for opex

In light of the above comments, we are specifically concerned with the AER's proposed assessment approach for opex. The AER has indicated that it will use a "base, step and trend" approach to assess the opex forecast of a DNSP.

While the AER is free to use such tools, we consider it should not form a baseline estimate to reject the proposed opex of a DNSP. Rather, the AER must assess the forecast method proposed by a DNSP, and undertake further review of a DNSP's proposal to assess whether there is a deficiency in the forecast. We have three concerns with the AER's draft guidelines in this context:

- Prescribing the forecast method to be used by the DNSP – The AER have indicated that they prefer DNSPs use a base, step and trend approach to forecast opex. The Rules do not prescribe a method that a DNSP must use to develop expenditure forecasts. Rather, a DNSP must demonstrate that the proposed expenditure meets the opex objectives, and satisfy the AER that the forecast meets the opex criteria and factors. In doing so, the DNSP should be in a position to put forward an approach that is fit for purpose and consistent with its business as usual processes. This may entail elements of the AER's forecasting method, but may differ in certain respects, such as the manner in which it treats non-recurrent costs in the base year, or the manner in which it incorporates change factors or productivity.

---

[4] AER, Explanatory Statement: Draft Expenditure Forecast Assessment Guidelines, August 2013, p32

[5] Australian Competition Tribunal, Application by EnergyAustralia and Others [2009], November 2009, paragraph 197.

- Method to review base year –The AER has suggested that it will use a combination of 'revealed costs' or benchmarking to set a base year. By narrowing its approach to these two tools, the AER is not considering the forecast with regard to all factors. In any case, we note that past performance always has a role to play in understanding the efficiency of forecasts, particularly given that many opex activities are recurrent in nature. Further, given that the AER impose such strong incentives, the AER should give substantial weight to revealed costs when assessing a DNSP's proposal. For example, NSW DNSPs have strongly responded to the incentive framework, making significant incremental efficiencies relative to the allowance that the AER set at the beginning of the period. We also seek clarity on how the AER would undertake a robust analysis to identify whether a DNSP has not responded to the incentives, and what criteria it would apply in forming its views.

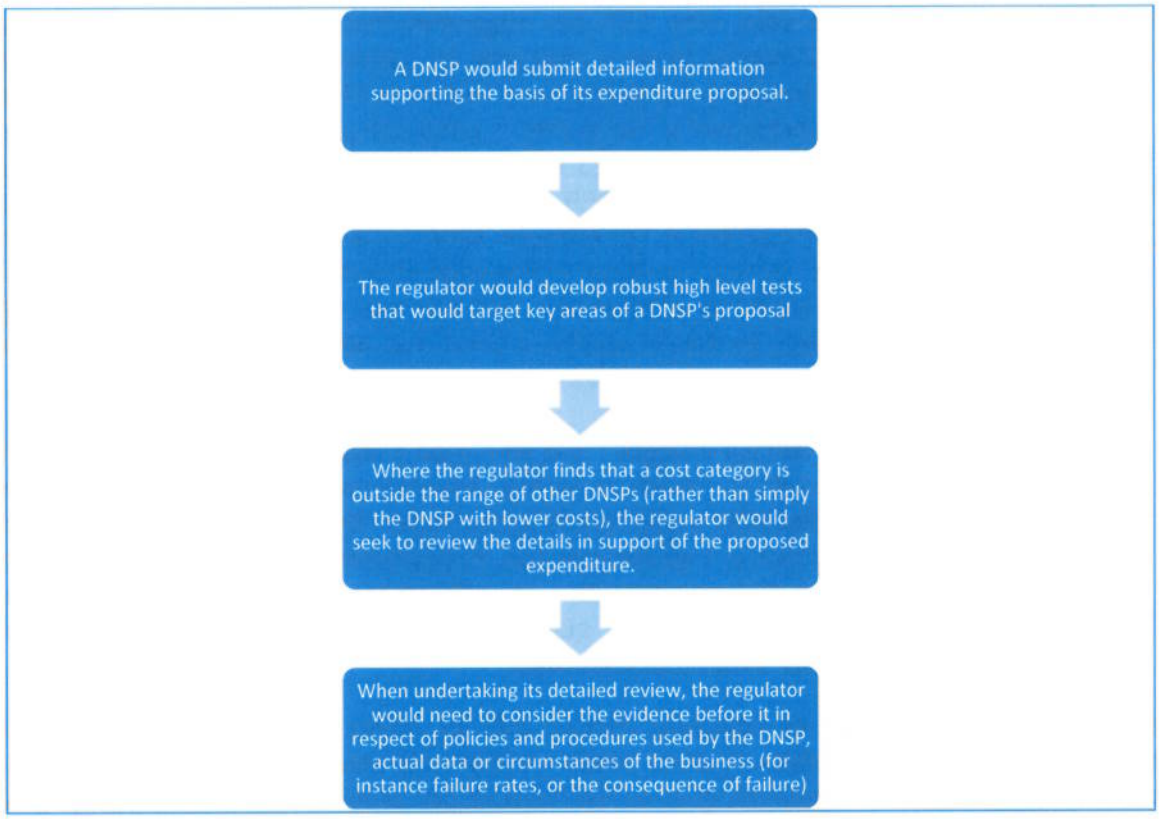
- Defining concepts such as step changes - The term 'step change' is not a defined concept in the Rules. The use of such a concept to exclude expenditure has the effect of precluding costs that may satisfy the criteria and factors in the Rules. Key examples include demand management and increases in maintenance due to degraded condition of assets. In both cases, the expenditure is likely to be prudent and efficient for a DNSP in its circumstances. The AER's role is to examine whether such expenditure meets the criteria rather than developing "rules of thumb" to exclude such costs.

In section 2.3 we have raised an additional concern with the AER's proposed approach to opex relating to the use of a productivity dividend based on economic benchmarking information. Once again, we consider such an approach goes to the heart of our concerns with the AER relying on assessment tools to set a baseline allowance, rather than directly assessing a DNSP's proposal.

1.3 Role and weight of high level assessment tools

Consistent with our comments above, we are concerned that the AER may place undue reliance on its assessment tools, rather than weighing the probative value of the material before it. In particular we note that the assessment tools cannot adequately substitute for the detailed and granular planning undertaken by an expert asset manager.

In our view, high level tools can at best be used to effectively target the direction of the regulator's detailed review. The diagram provides an illustration of how we see high level tools would operate to inform the AER's assessment of a DNSP's proposal.



We consider that the deterministic use of high level tools may lead to erroneous outcomes, with a DNSP not being provided sufficient allowances to maintain the safety, security of the network and to meet its regulatory obligations. An example is if a regulator rejects a replacement program based on the outcomes of the replacement expenditure (repex) model despite evidence to show that the failure of the asset is likely, and that the failure would result in injury or catastrophic consequence.

In particular, we have strong reservations with the use of category and economic benchmarking. In previous submissions we have noted that benchmarking is extremely limited in its ability to derive meaningful judgements on the efficiency of a DNSP. In the current environment, benchmarks may in fact lead to misleading conclusions unless the regulator undertakes more detailed examination to uncover whether the anomaly is due to inefficiency. The primary reasons why benchmarking is of limited value are:

- The characteristics, drivers and investment cycles of DNSPs in Australia are so disparate as to not enable 'like for like' comparisons.[6] Currently, the guideline does not explain how the AER will account for differences between DNSPs and the limitations of these techniques. We do not understand whether the AER's benchmarking tools are able to normalise or take into account these fundamental differences in a meaningful way.

- DNSPs do not have, and are not required to have, like-for-like approaches to categorising expenditure or reporting unit costs. These accounting and reporting systems make comparisons highly problematic at the current time.

[6] We refer the AER to our submission of 26 July which identifies the key differences between DNSPs, and why these factors would need to be accounted for in benchmarking tools.

These views have been supported by extensive reviews undertaken by the Productivity Commission and in the AEMC review of Total Factor Productivity. Both reviews noted that the use of benchmarking at this time is very limited. The Productivity Commission stated:

> *"At this stage, benchmarking - which compares the relative performance of businesses - is too unreliable to set regulated revenue allowances. Nevertheless, greater and more effective use of benchmarking could better inform the regulator's decisions.*[7]*"*

The DNSPs are supportive of benchmarking and indeed our experience with industry reform in NSW has sought to use peer comparisons as a tool to identify potential areas of efficiency. However, we have taken great caution in how we use that data, including rigorous reviews on the accuracy of the information, and seeking to understand whether there are any other factors that account for perceived differences. While supportive of benchmarking, we do not consider that it is appropriate for the direct setting of regulatory revenues and urge the AER to use the caution in applying such high level tools.

Similarly, predictive tools such as the augmentation expenditure (augex) and repex models cannot adequately account for unique drivers and DNSP specific reasons for investment. While such tools are also useful for DNSPs, the information needs to be used with common sense and caution. For example, the augex model cannot adequately account for capacity investment related to voltage issues as would be experienced by rural DNSPs such as Essential Energy.

2. Transitional issues for NSW DNSPs

The NSW and ACT DNSPs are currently preparing detailed forecasts for our transitional and substantive regulatory proposals due in January 2014 and May 2014, respectively. As the first DNSPs subject to the guidelines, we are considerably disadvantaged if the AER applies the full suite of assessment tools without adequate consultation, or testing of outcomes, given that our forecasting methodologies and investment programs will be largely finalised before the release of the final guidelines. In light of this, we encourage the AER to adopt a cautionary and consultative process to applying the assessment tools to our upcoming determination.

In the sections below, we identify key issues for NSW DNSPs including:

- The techniques, models and data requirements will not be fully developed by the AER at the time we submit our proposals. We are concerned that we may not be afforded due process as a result of limited time to raise matters with the application of the tools.

- The AER's assessment techniques are likely to be untested and prone to errors, and therefore less weight should be applied to such techniques until data and models can be quality assured.

- The AER should not apply a mechanistic approach to productivity based on TFP or other industry measures. In our case, the AER should look to the significant efficiencies we have achieved under industry reform that have been incorporated into our opex and capex forecasts.

2.1 May not afford due process to NSW DNSPs

The AER is embarking on a considerable departure from its current approach to assessing forecasts of DNSPs proposals. Our concern is that the AER is still in the very early stages of developing its

[7] Productivity Commission, Electricity Network Regulatory Frameworks, 9 April 2013, p3

techniques and models, such as for economic benchmarking and category analysis. The AER itself has acknowledged that this creates a disadvantage for NSW DNSPs.

> *"NSPs submitting regulatory proposals in May 2014 will do so without full visibility of our new techniques. We recognise this creates a potential disadvantage as these NSPs will not be able to modify their proposals for the AER's assessment approach."*[8]

We are concerned that we will not have sufficient time to respond to the issues raised by the AER at the time of the draft determination in November 2014. For instance, the AER will only be publishing its benchmarking report in September 2014. This is the first time we will gain an understanding of the AER's techniques and the data that has been relied on. In particular, errors that may have been identified under the normal timelines of a determination may not be apparent in such a short window frame, leading to adverse regulatory decisions.

To address this issue we would expect the AER to consult extensively with the NSW DNSPs during the regulatory determination process, and be transparent with the material it is intending to use. We should be afforded a reasonable opportunity to examine the AER's approach and explain any variances in inputs or outputs.

2.2 Use of untried and untested assessment tools

A further concern is that the AER intends to use new and untested techniques immediately to assess NSW DNSP forecasts. The AER states:

> "(the AER) *intend to give ourselves the ability use all of our techniques when we assess expenditure and refine them over time."*[9]

We are concerned that the AER presume these methods are suitably accurate and will enhance decision making. The guideline would benefit from verifying the validity of the techniques the AER intend to use and provide evidence to support their use will benefit customers in the long term.

In section 1.3 we noted the inherent limitations with benchmarking and warned that poor data quality and techniques can lead to misleading conclusions. In the short term, the probative value of benchmarking material will be further compromised by data quality and model error issues.

Indeed the AER itself has also noted that data provision will be problematic and there is likely to be teething issues.[10] The reliance on untried, un-tested and un-refined techniques will not result in reasoned decisions. There is a high risk and greater consequence of regulatory error if new assessment techniques are extensively relied upon to reduce expenditure allowances. This will be exacerbated by the application of incentive schemes that will measure NSPs against these lower allowances.

We consider the AER should develop and refine their techniques over time, and only incrementally rely on their outcomes for decision making purposes.

2.3 Use of mechanistic productivity dividends does not give regard to efficiency drive in NSW

We are concerned that the AER has suggested it may use industry productivity factors based on economic benchmarking data to set allowances. We note that industry reform in NSW has led to active and aggressive targeting of efficiencies in our opex and capex at a granular level, and that

---

[8] AER, Explanatory Statement: Draft Expenditure Forecast Assessment Guidelines, August 2013, p107

[9] AER, Explanatory Statement: Draft Expenditure Forecast Assessment Guidelines, August 2013, p78

[10] AER meeting summary 2 September.

estimates of productivity will form a key component of our regulatory proposals. We are concerned that the AER would mechanistically apply a further productivity dividend without considering the level of efficiencies we have achieved to date that represents the maximum scope for productivity improvements given our operating environment.

We also request the AER to set out whether a decision to apply productivity in a forecast is compatible with its incentive schemes. In our view, a DNSP should not be penalised through the AER's incentive schemes for not meeting a revenue target if that target was based on high level benchmarks and not the existing revealed cost framework. We seek clarification from the AER on this issue.

3. Information requirements

In this section we outline our high level concerns with the AER's information requirements. Our key issues are:

- We cannot provide a significant amount of the required data to a high degree of confidence - The AER is continuing to ask for information that are not recorded by our systems, including data of a retrospective nature. We consider that the AER should only seek information that we can provide from a verifiable source in our systems.

- Review requirements – We consider the AER should not require a positive audit. We consider that the AER should seek less onerous review requirements.

- Implementation issues for NSW resets – We note that the AER will be requesting a large amount of information at the same time we are preparing our reset. We consider that the AER should consider a more streamlined process to collect data, and tailor information requirements to our businesses. In particular, we consider that any requirement to provide benchmarking data should occur following the submission of our regulatory proposals in May 2014 or, as a minimum, that all required benchmarking information be incorporated in the reset RIN to be submitted in May 2014.

We also outline specific issues with the AER's cost category templates, which were published at the same time as the guidelines. We have not undertaken a comprehensive review of the worksheets in the limited time provided, and have only raised high level issues.

3.1 Inability to provide data with accuracy

We will not be able to provide a significant proportion of the data in the AER's draft templates to a high degree of confidence. In our workshops and submissions, we have previously raised issues with the AER requiring information that is:

- Retrospective in nature – The AER has asked for backcast information that we have not collected in the past, and which would require manual manipulation. At times the AER has asked for similar data to that provided in previous RINs, but now require the data in form that requires manual manipulation.

- Forecast data that does not align with our planning and information systems – The AER has sought to collect forecast information that does not accord with our planning processes, and therefore relies on estimates and allocations that do not provide for meaningful analysis of our forecasts. For example, the AER has developed cost categories for opex which do not accurately reflect our budget and forecast approaches.

- Requires extensive detail – The AER is requesting over 40 worksheets of information. In some areas, the AER has asked for such levels of information that it is not apparent how the information could be meaningfully used by the AER in assessments. We suggest that the AER publish a handbook on how it will use the information provided, similar to its approach for the repex and augex models.

From a decision making perspective, we are concerned that the AER would use data that DNSPs note cannot be provided with confidence as part of a benchmarking exercise. There is a high risk of regulatory error if an inappropriate view of 'efficiency' is formed by relying on these methods inappropriately. This will be compounded if forecasts are substituted by reference to these techniques and the NSW DNSPs are subsequently penalised under the new high powered incentive schemes as noted previously.

To address these issues, the AER should reconsider its approach to collecting information for upcoming determinations. The AER should collect information that it can rely on with confidence, and over time require DNSPs to collect and keep forecast information in the way it requires for benchmarking purposes.

The NSW DNSPs also suggest that the AER publish any cost benefit and/or options analysis conducted for the implementation of the new assessment methods. In particular, the NSW DNSPs would like to understand if the analysis would show that a staggered process to collect information would be beneficial in terms of lower costs and improved benefits from using a data set with better quality information.

3.2 Review requirements

The AER's review requirements will be problematic for NSW DNSPs given the data quality issues we will be facing. A positive audit would only be possible if the source of information can be verifiable in information systems. While auditors may provide a view on the way a DNSP has implemented a process for developing an estimate, they could not form a positive opinion on the robustness and accuracy of the data.[11]

Our view is that the AER should require less onerous review requirements. This would also significantly lower the costs of undertaking a review and may alleviate resourcing issues for DNSPs who are all seeking services at the same time.

3.3 Streamling and tailoring the RIN process for NSW DNSPs

The NSW DNSPs note that the AER's information requirements will place us under considerable strain in preparing our regulatory proposals. In addition to preparing a transitional and substantive regulatory proposal, we will be expected to complete an economic benchmarking RIN in February 2014 and a reset RIN which incorporates the category analysis data in May 2014.

We request that the AER consult further with us to lessen the resourcing burden. As noted above, we consider it would be efficient to use the data we have provided in previous RINs, and to limit information requests to areas where we have systems to provide the information accurately. Any requirement to provide benchmarking data should occur following the submission of our regulatory proposals in May 2014 or, as a minimum, that all required benchmarking information be incorporated in the reset RIN to be submitted in May 2014.

3.4 Specific issues with data templates

[11] Even if a positive opinion could be provided, the audit process would take many months to complete – well beyond the timelines set out by the AER for the current benchmark data collection process.

We refer the AER to our submission of 13 September 2013 which set out our high level concerns with the AER's data templates for economic benchmarking.

We note that the AER has also requested feedback on the category templates. We have not had sufficient time to undertake a detailed review of the templates but note the following high level concerns:

- The AER has not been clear on whether it will be collecting historical data and forecast data for NSW DNSPs.

- At times, it appears the AER has included templates that are not relevant to NSW DNSP circumstances. A key example is the template relating to fee and quotes service (ancillary services) which requires data on public lighting assets, which the separately regulates in NSW

- The AER's requirement to provide information on a direct, network overhead and corporate overhead, is not compatible with the recording and estimating systems of all the NSW DNSPs While we could make high level approximations, we question whether collecting data in this form will lead to misleading conclusions, as our industry experience indicates that DNSPs in Australia have very different ways of recording information.

- The AER has included transmission tabs. We request that the AER clarify that DNSPs with dual function assets should only complete the distribution worksheets.

Our view is that the AER should provide a handbook relating to each worksheet to clearly set out the purpose of the material it seeks to collect. We also would like to have bilateral discussions with the AER which provide opportunities for NSW DNSPs to demonstrate where we cannot provide information with a high level of confidence, or which may lead the AER to draw erroneous conclusions.

As part of our high level review, we have focused our attention on the augex and repex handbooks. We note that the handbooks do not provide sufficient information on the AER's calibration techniques and the way it would use benchmarking in applying the model. The updated handbook was supposed to address these concerns and provide clear direction, particularly since the AER have stated they will use the raw RIN data we are providing to generate their own planning parameters.

In respect of the augex model, we note that the model is untested and caution should be used by the AER in its application. In particular its use as a benchmark tool is very limited due to different network configurations, planning criteria (level of acceptable risk) and the definition of the $/MVA cost factor.

We also have specific issues and clarifications with the model. These issues go to the core accuracy of the model and the lack of clarity means we have to make some rough assumptions which are not aligned to our planning processes. We have identified the following specific issues in respect of the modelling:

- The AER has not provided any further guidance on an issue we raised with the AER in a workshop in March 2012. At the meeting, Nuttall Consulting suggested a method to account for line lengths in the planning parameters (eg $/MVA/km) but the version of the model on the website does not adopt this.

- The model is primarily concerned with the trunk sections (from the zone to the first point of load) of the network so situations where we can use our mesh arrangement to delay work, or in situations where we deliver a solution at another voltage level requiring augmentation expenditure, it is not possible to show this using this model. (For example, we could

decrease a load on one truck section an 11kV feeder by transferring to an adjacent lees loaded asset).

- We have concerns with the AER trying to reverse-engineer an 'N' utilisation threshold and substitute a normal distribution on top of it, rather than apply N-1 utilisations and thresholds as used in the planning process.

- The model is designed for radial networks that are much simpler to model. We have requested but are yet to be provided with information required to help us model our meshed network.