16 September 2013

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

Dear Mr Reeves

RE: Economic Benchmarking Regulatory Information Notice Consultation

Ausgrid, Endeavour Energy and Essential Energy ('the NSW DNSPs') appreciate the opportunity to respond to an AER staff email of 31 July 2013. The email sought stakeholder views on an information template that will be applied by the AER to undertake economic benchmarking in regulatory determinations. Upon receipt of the NSW DNSP email responses, AER staff have requested that the NSW DNSPs make a submission in a format suitable for publication on the AER's website.

We recognise that the expenditure assessment workshops have provided valuable opportunities for engagement with the AER. However, we would prefer that requests for comments that relate to legal instruments such as regulatory information notices be undertaken on a formal and public basis. This would allow all interested parties to make submissions, and would provide better context to responses published by the AER on its website.

The benchmarking templates are of key significance to the NSW DNSPs as we are currently preparing our regulatory proposals. Our major concerns with the draft information template are:

- We are concerned that retrospective information requested in the templates cannot be provided with a high degree of confidence. We note that estimations and assumptions would significantly lessen the robustness and validity of benchmark models.

- Providing data which are inaccurate or involve estimations would cause potential audit issues, particularly when we have been required to provide information that is not traceable or verifiable.

- We consider that the AER should consider how it can streamline requests for information to avoid duplication and administrative cost. This is of great importance to us as many of our resources are currently engaged on the upcoming regulatory proposals.

We have attached the specific issues raised by each of the NSW DNSPs in their initial responses to the AER's staff email request. We note that the consultation period has not provided sufficient time to undertake a line-by-line assessment of the information requirements and our comments are therefore limited to identifying high level concerns. We request the AER to undertake more detailed discussion with us before issuing a draft Regulatory Information Notice (RIN), given the magnitude of the issues we are raising and the legal nature of a RIN.

Collection of inaccurate historical data will lead to misleading benchmarks

A key issue is that the AER is asking for historical information in a form that cannot be readily provided by us with confidence. We are concerned that the AER would use inaccurate information in its benchmarking techniques leading to misleading results.

The AER has requested data which extend back to 2003. We have not been collecting information in the form and categorisations required by the AER, and for this reason any data provided would be of

poor quality. We have two areas of particular concern with our ability to provide accurate backcasting information:

- RAB data: We have not collected or recorded RAB values in the categorisation set out in the templates. The AER will need to specify an allocation process to translate the current RAB categories into the categories being requested.

- Operational data: Some of the other operational data requested have not ever been collected, or does not extend back to 2003. Examples include information on physical assets, customer numbers and energy demand.

The underlying issue of backcasting data availability was acknowledged by the AEMC in its review of a proposed Rule concerning the application of Total Factor Productivity. At the time, the AEMC concluded that available historical data were of poor quality and reliability, and therefore requesting backcasting of data into different forms would exacerbate benchmarking inaccuracies.

The NSW DNSPs believe the AER should concentrate on a forward looking process to develop reliable and consistent data collection. A transition to economic benchmarking would enable NSPs to implement the necessary systems to capture and report the required information. In time, this will ensure accurate and quality data can be provided to the AER and will enable more robust benchmarking conclusions.

In the email of 31 July 2013, AER staff recognised that Network Service Providers (NSPs) may not have historically collected data in the form and the definition required by the AER. We are concerned that the AER is continuing to seek the information through estimates and assumptions. We consider the use of inaccurate estimates would lessen the robustness and validity of the benchmarking results, as it would be impossible to develop quantitative ways to determine the error of the estimate.

A further issue with providing assumptions is that it is not clear how the data will be used by the AER in its modelling. We therefore suggest that the AER undertaking public consultation on this matter in order to create transparency and ensure that our assumptions are fit for the AER's purposes.

Potential audit issues with historic data estimation and systems

The NSW DNSPs have concerns regarding the associated audit requirements, particularly audit issues in using 'best estimates' from historic data. An auditor could not provide assurance on data which have not been historically collected and stored in IT systems. This issue is particularly relevant to those systems that have been replaced or significantly updated since the data were originally captured.

A 'reasonable' level of assurance requires a high level of confidence in the accuracy of a subject matter. It is unlikely that the necessary corroborating evidence will exist for the auditors to test the results at the level required for a reasonable assurance audit. A limited level of assurance would be more appropriate for re-cast, historical or estimated data. In this case, the auditor would obliged to conclude whether the subject matter is plausible in the circumstances. The NSW DNSPs are unlikely to be in a position to provide much of the data sought if a reasonable level of assurance is required.

Further, we note that we will have limited resources to gather data and undertake a detailed audit process over the next few months on benchmarking data as it coincides with our extensive preparations for our upcoming transitional and substantive regulatory proposals.

Streamlining information notice process

We consider there are opportunities to better streamline the information notice process. We are concerned that we will need to submit multiple information notices in the lead up to our regulatory

proposals, at a time when resources to undertake the task are very limited. We suggest that the provision of benchmarking information for the NSW DNSPs be deferred until our five year regulatory proposals are lodged in May 2014 or, as a minimum, benchmarking information should form part of a consolidated information request that accompanies the regulatory proposals.

In terms of streamlining content and avoiding duplication, we consider the AER should be using data already provided in historic annual RINs and Regulatory Accounts wherever possible. It is our understanding that the AER has access to the information we provided to IPART before 2009, which would also enable the use of longer term data series.

A further means of streamlining the process is to prioritise newly requested data. This would allow us to provide more accurate and reliable information to the AER over a longer period of time. This will also provide the AER time to gather a greater amount of data to test the validity of the model prior to applying them in a determination process.
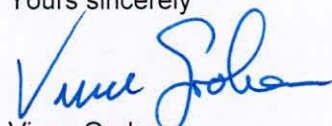
We also consider that forward looking data should use the same categorisation and definitions that the AER has required NSPs to use in the past. While we acknowledge the need for a level of consistency, we do not believe the AER should make wholesale changes to the categorisations it has used previously.

Clarity on treatment of services that change classification

We seek clarity from the AER on whether there will be explicit consideration of services that have changed classification. For example, metering and ancillary network services have been part of standard control services. We request clarification on whether the AER intends to collect future information under the new classifications.

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

Attachments:

A   *Specific Issues Identified by Endeavour Energy*
B   *Specific Issues Identified by Essential Energy*
C   *Specific Issues Identified by Ausgrid*

Attachment A – Specific Issues Identified by Endeavour Energy

General

Endeavour Energy supports the ENA submission on this template. Broadly, we have some concerns with providing some of the requested information in a reliable, accurate and auditable manner. The template requires a level or split of data we do not keep for standard business reporting or data we have previously provided in a different manner. Our concern with the level of assurance required particularly relates to any backcast historical data.

We note that it is crucial that there is agreement amongst the NSPs of the definitions provided by the AER. The majority of information we provide will be mapped to the categories requested based on judgment and interpretations which is likely to differ across NSPs. This may undermine the value of the information collected and the ability to compare NSPs meaningfully. We welcome the opportunity for further comment and consultation with the AER either specifically or at relevant workshops.

In regards to the level of assurance, we provide reasonable assurance for financial information contained in the RIN templates for those periods which were subject to a RIN audit. The only difference should be how we segment the data, but it should summate to the same answer. In relation to historic (not subject to a RIN) and estimated data it's going to be difficult to provide any more than limited assurance. This is most likely because no corroborating evidence will exist for auditors to test the results and we may find ourselves in a position where reasonable assurance can simply not be given.

We therefore advise that historical data should be based on the audited RIN or regulatory accounts only and should not be "recast" into the current regulatory period reporting structure. We recommend that limited assurance would be more appropriate and that if necessary, the AER may request the auditor specifically include a procedure to reconcile the financial figures in the benchmark to audited RIN's where appropriate.

Specific comments on templates

2. Revenue
The groupings differ from that previously provided although we anticipate that we can conform to these groupings. However, we would like some clarity in relation to "Revenue from Other Sources." We believe this spread sheet is intended to cover DUoS only, in which case we would not have any other sources as we are not considering 'Other Revenue' such as M&M's.

Could the AER confirm whether controlled Load lives in the available categories ("off-peak" or "non-TOU")? We have previously reported controlled load separately and it may be misleading to incorporate it elsewhere.

We also note that the "network business" is the standard and alternative control businesses only and excludes the unregulated service categories. How will the AER (in this instance and in general) account for regulatory changes over time? In relation to this worksheet, prior to 2010/11 there was some unregulated business revenues included in the alternative control services (such as customer funded connections, metering services type 1-4 etc). Will the AER account for differences such as this between jurisdictions?

In addition, we are currently not aware of any 'Revenue from Contracted Maximum Demand charges' at the present; however we will need to confirm whether this has never been the case.

For revenue purposes, the earliest available data in our systems is from 2004/05, we are unsure whether we could source data for 2003 and whether it is even available. It will also be difficult to provide unmetered revenues as there was not a specific tariff for these customers over the requested period.

3. Opex

For 3.1 we have no issues in providing the data in the current RIN format. However, we note a similar issues to that noted above regarding regulatory changes over time. As noted above, prior to 2010/11 some unregulated business costs were included in alternative control services.

For 3.2 it will be difficult to construct this data as we do not capture it historically for some of the categories and we have not provided this information in previous audited accounts. It will be very difficult to provide opex for connection services, HV customers and transmission connection point customers in the detail required. As previously noted, Type 1-4 metering was excluded from metering opex line from 2010/11 onwards which will need to be accounted for in any comparisons

Historically we have captured contractor costs in our accounts as a fully costed amounts; that is we do not break up a contractors invoice into profit, labour, materials, sub contract work etc. What may not be clear historically is whether services have changed from insourced to outsourced serviced. Should we include the labour and administrative costs incurred internally for a activity completed by a contractor or only the contractor invoice amounts?

4. Assets (RAB)

We are unsure of the purpose of this worksheet as we have previously provided this data in the AER's Roll Forward Model (RFM). We only use the RFM for regulatory purposes rather than a financial asset register. The categories defined in the RIN provided are different to those we use in our RFM. It would be very difficult to map the existing categories to those requested and it is unlikely to be accurate or auditable.

The RIN also assumed the same asset categories apply to standard and alternative control services. Furthermore, it is assumed we use a RAB for alternative control services which we have not done so since 2009.

We would advise the AER use the existing RAB categories for this worksheet, it is unlikely that NSPs will be able to map to these new categories in a consistent or reliable manner.

We refer the AER to the attached advice which explains in greater detail the differences between our accounting and regulatory framework. This should provide greater context to the difficulty of providing the information as requested.

5. Operational data

5.1 Energy Delivery

'Energy grouping – delivery by chargeable quantity' – earliest available data is 2004/05.

'Energy – received from TNSP by time of receipt' – earliest available data is 2005/06. Also, the definition of peak, shoulder and off-peak energy is based on Endeavour's definition. We note this may not necessarily conform with TransGrid's definitions.

'Energy grouping – customer type or class' – Earliest data available is 2004/05 and we would split Small Industrial Customers vs Large Industrial Customers by voltage (i.e. LV = small, HV and subtransmission = Large). This seems to be consistent with the variables and definitions worksheet.

5.2 Customer numbers

'Distribution customer numbers by customer type or class' - Earliest data available is 2004/05 and we would split Small Industrial Customers v Large Industrial Customers by voltage (i.e. LV = small, HV and subtransmission = Large). This seems to be consistent with the variables and definitions worksheet.

'Distribution customer numbers by location on the network' – We currently do not have this information, unless we decide 100% of customers fall into the "urban" classification. We will need to investigate further where we can source this data from if more detail is required. We would be

uncomfortable providing this data on the basis of an arbitrary allocation to be audited or used for benchmarking purposes.

5.3 Demand
We can provide total system demand MW and MVA. In terms of demand supplied (for customers charged on this basis) we do not think the definition is clear as to what is desired. An elaboration or example with this definition would be of use.

6. Physical assets

We can provide data on line lengths and transformer capacity however weighted average line capacity is problematic. We can provide subtransmission voltages (132,66,33kV) with a reasonable degree of accuracy, although we would need to calculate this still.

For 11/22kV we would be making gross assumptions that are unlikely to be accurate and auditable. For LV, we have previously advised the AER that we do not have data on our LV network and cannot provide data for lines operating at this voltage.

We are also unsure of how accurately we could provide historical data for this spread sheet.

We can provide the public lighting stats on luminaires and poles however we are unsure of how far back we can provide this data.

7. Quality of services
In regards to section 7.1 we can provide the information for DQS01 and DQS03 from previously published reports. However, we need more clarity around DQS02 and DQS04, the definition is unclear and we are not sure how they differ from DQS01 and DQS03.
In regards to section 7.2 'Energy not supplied' we do not capture this data and are unsure of how we can provide it in an accurate way. Significant estimates and judgments would need to be made to provide this data.

8. Environmental factors
An estimate of the percentages required to complete the table for vegetation encroachment spans and vehicle access will have to be made. We have new systems that will provide accurate data for the percentage looking forward, however the historical data will have to be estimated. This is similar for standard vehicle access with likely a greater level of estimation and reliable data. The level of assurance we could provide around this data would be low.

We welcome the opportunity for further comment and engagement with the AER on this issue.

Attachment B –Specific Issues Identified by Essential Energy

Thank you for the opportunity to comment on the DNSP economic benchmarking templates and the consultations held to date on this matter.

Backcasting

Backcast data may be difficult to obtain with any level of accuracy or meaning. Some data requested will not be available as it was not collected in the requested format. The older that data is, the more adjustments are likely to be required and therefore the more unreliable it will become. In some circumstances the data may not be available. It is also likely to be problematic to obtain audit or management representations on estimated or adjusted data. It will be difficult to draw any meaningful conclusions from data that is estimated through assumptions developed by individual businesses in isolation and on a different basis.

In its review of TFP, the AEMC concluded that available historical data was of poor quality and reliability, and therefore requesting back casting of that data into different forms would make the situation even worse and more untenable.

Consistent with the AEMC's views as noted above, Essential Energy believes the AER should concentrate on a forward looking process to develop reliable and consistent data collection. To this end, Essential Energy does not support the AER's approach to issuing individual Regulatory Information Notices (RINs) to each DNSP and instead recommends the use of Regulatory Information Orders (RIOs). As such, we suggest that the AER issue a RIO that sets out its expectations on what data needs to be collected and reported as soon as possible. Even under a RIO, it is not envisaged that every DNSP could provide all of the required information immediately, but early visibility of what the DNSPs need to provide to the AER would assist in working towards full compliance over time. It is important to acknowledge that changes to systems and processes require substantial lead time.

In summary, we believe the backcasting of data would be of little value to the AER given the inconsistent and widely varying information that could be provided, resulting in inaccurate or misleading benchmarking outcomes.

Definitions
Network services – it is not clear whether the definition refers to the sum of standard control and alternative control services. If this is the case, the outcomes should be formula driven. Clarity on this matter would assist DNSPs.

2. Revenue
It is not clear where would ancillary network services/miscellaneous and monopoly revenues would be be reported (i.e. 'revenue from other sources' and 'revenue from other customers').

3. Opex
It would be helpful if rows are able to be added to Table 3.1 by a DNSP. Table 3.2 is somewhat confusing and clarity on the mix of categories would be helpful. We note that Essential Energy would not have information to fill out DOPEX0205 in its current form.

4. Assets (RAB)
Please refer to our comments in email to you on 6 August 2013. RAB information has only ever been collected and reported as part of regulatory determinations in the relevant historical asset classes. RAB values have not been collected in the asset classes in the template and therefore any information required would have to be estimated or manipulated from other information.

5. Operational Data
Tables 5.1 - It appears that this information is targeted at a loss calculation, however Essential Energy does not deal in losses and therefore is not sure of the relevance of this information. We are concerned over the quantity of information required to complete the 'Energy - received from TNSP by time of receipt' – as it would be a massive amount of data that may not even be available in full.

Tables 5.2 - Essential Energy does not have historical information for 'Distribution customer numbers by location on the network'.

Tables 5.3 - Any information required that has not been reported in the annual RIN or regulatory accounts will not be available. Any information that is available will only be for the last few years.

6. Physical Assets
There are no historical records for this sheet. Any information required that has not been reported in the annual RIN or regulatory accounts will not be available, and therefore, even when available, will only be for the last few years at best.

7. Quality of Services
There is no historical data prior to the merger with Australian Inland Energy and Water in 2005.

8. Environmental Factors
Table 8.1 should be a series of calculations utilising base data. The definition of standard vehicle access is not clear and requires further clarification. In its current form, measuring it would be problematic.

Attachment C – Specific Issues Identified by Ausgrid

Ausgrid appreciates the opportunity to comment on the economic benchmarking template, which is of significance as we are currently preparing our Regulatory Proposals.

Prior to discussing the template it is worth noting that we appreciate the AER escalating this issue from workshop based consultation into a more public consultation being published on the AER's website. This will provide improved transparency to the main issues being raised by stakeholders and the issues being considered by the AER.

Best estimate for data that does not exist
The AER recognised the main issue when making the initial request for comments - NSPs do not have all the historical data being requested by the AER. The AER suggested that NSPs create the 'best estimate' of that data as possible. As a principle, we would like to prevent the use of estimates as testing the reliability/accuracy of the estimates will be difficult.

Ausgrid notes that the data template is very detailed and includes specific definitions, which implies the AER has well developed thoughts on what this data would be used for. Undertaking public consultation on the benchmarking models, with discussion of how the new data would be used in those models would inform Ausgrid on the appropriate estimation process. If the wrong estimation process is used the AER's intended modelling may contain significant flaws.

Economic Benchmarking, Regulatory Proposal and Annual RINs
As this benchmarking RIN is intended to be a backcasting exercise, Ausgrid would prefer the AER to review the data we have already provided in other RINs, Regulatory Accounts and WAPC compliance models before it requests the same information again.

It is our understanding that our historic Regulatory Accounts that were issued to IPART in the past, were all been provided to the AER in the 2009 AER determination process. The AER acknowledges that the AER's request may include requests for duplicate data as it noted that such data will not require an audit. We would prefer to avoid the unnecessary administrative cost of reproducing data already provided to the AER.

Consistency of data over time
As noted above, some of the data requested is similar to information we have previously submitted in WAPC compliance models, PTRM's, RAB roll forward models, Regulatory Accounts, responses to Regulatory Information Notices. In noting that, the data request appears to use some different definitions, categories and groupings.

As a principle, it would be preferable if we could align the definitions of data being requested with that of historic data already provided to the AER. For future data, any trend analysis should rely on using the same grouping/categorisation and definitions that the AER has required NSPs to use in the past. However, Ausgrid acknowledges that this will depend on the AER's intended use for the data.

Information about the regulatory asset base
Ausgrid has only ever collected information about the RAB as a result of regulatory determinations. All the RAB information is found in regulators' determinations and Regulatory Accounts/RIN responses. The asset categories used in the PTRM and RAB roll forward models are the only categories that have 'RAB values'. Ausgrid's RAB is not broken down into further categories.
The AER's PTRM has economic valuation assumptions that do not match those required under accounting standards. To allocate the RAB into new categories will be possible but to what extent this is accurate, reliable or useful will depend on what the best estimate is used for.

Operational data
The operational data requested is very detailed and some of this has already been provided in Ausgrid's WAPC compliance models. However, some of the other operational data requested does not exist.

Developing an estimate of this data will be a time consuming exercise and therefore Ausgrid would not like to provide a 'guarantee' that this data can be estimated.

Audit and assurance of 'best estimates'

The creation of estimates will result in a situation where positive audit assurance may present some problems. The nature of best estimates means they are by definition not accurate. That is, using estimating historic data based on other data collected and stored in IT systems means an auditor will not be able to test the data capture process. This is particularly relevant to those systems that have been replaced or significantly updated since the data was originally captured.

This issue may result in the estimation process being reviewed and deemed to be the best available process. However, the auditor may not been able to conclude that the data is a 'best' estimate or even a fair estimate as the reliability of the original inputs could not be tested. We will work with the AER as these issues arise.

As a practical matter the AER should consider a lower level of audit assurance for data being estimated.

Time horizon

Finally, the AER requested data back to 2003. It is unlikely that Ausgrid will have enough data to complete the entire RIN that far back in time. This will be determined on be a case by case basis.