

**SA Power Networks**

AER Regulatory
Information Notice

**www.sapowernetworks.com.au**

response for the year ended 30 June 2013

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# 1. INTRODUCTION

On 28 September 2012, the Australian Energy Regulator **(AER)** issued SA Power Networks (ABN **13 332 330 749**) a Regulatory Information Notice **(Notice)** under Division 4 of Part 3 of the *National Electricity (South Australia) Law* **(NEL)**.

The Notice requires SA Power Networks to provide and to prepare and maintain the information in the manner and form specified in the Notice, of which information the AER requires for the performance or exercise of its functions or powers conferred on it under the NEL or the *National Electricity Rules* **(NER),** namely to:

* + - * 1. monitor the compliance of SA Power Networks with the 2010-15 Distribution Determination,
				2. publish reports relating to the financial or operational performance of SA Power Networks, and
				3. prepare for the making of future distribution determinations to apply to SA Power Networks.

In respect of the 2012-13 regulatory year, the information to be provided, prepared and maintained in the form as specified in the Notice must be provided to the AER electronically to AERInquiry@aer.gov.au on or before 5:00 pm Australian Eastern Daylight Time on 13 December 2013.

The information and documents are to be marked to the attention of the General Manager, Network Operations and Development, Australian Energy Regulator.

SA Power Networks is specifically required to provide the information requested in Schedule 1 of the Notice, including: the information required in the Regulatory Accounting Statements, being the information required in the worksheets in the Microsoft Excel workbook attached at Appendix B; and the information required in the Non-Financial Regulatory Templates in the Microsoft Excel workbook attached at Appendix C. In addition a statutory declaration made by a company officer, as set out in Appendix D to the Notice, must be provided and the information specified in Appendix E to the Notice must be audited.

# 2. NATURE, SCOPE AND PURPOSE

The purpose of this document is to set out SA Power Networks’ response in accordance with Schedule 1 of the Notice. This document should be read in conjunction with the responses provided by SA Power Networks in completing the Regulatory Accounting Statements that were attached as Appendix B to the Notice and the Non-Financial Regulatory Templates that were attached as Appendix C to the Notice.

# 3. REGULATORY INFORMATION NOTICE – SCHEDULE 1

### 1. PROVIDE INFORMATION

##### Item 1.1

Provide:

1. the information required in the Regulatory Accounting Statements, being the information required in the worksheets in the Microsoft Excel workbook attached at Appendix B;
2. the information required in the Non-Financial Regulatory Templates in the Microsoft Excel workbook attached at Appendix C;
3. in relation to the information provided in the response to paragraph 1.1(a) and 1.1(b), explain, where applicable:
(i) the assumptions and methodologies underlying the information provided;
(ii) each instance where the information cannot be provided or is not provided in full;
4. a Microsoft Excel workbook or other information that explains all movements between the Audited Statutory Accounts and the Regulatory Accounting Statements;
5. the Capitalisation Policy for the Relevant Regulatory Year; and
6. the statement of policy/s for determining the allocation of shared costs in accordance with the *Cost Allocation Method* for the Relevant Regulatory Year and the previous *regulatory year.*

**SA Power Networks’ response**

SA Power Networks has completed, to the extent possible, the information required in the Regulatory Accounting Statements (referred to in item 1.1(a)) and the Non-Financial Regulatory Templates (referred to in item 1.1(b)).

SA Power Networks’ responses to item 1.1(c) are contained, where applicable, in each of the relevant worksheet tabs of the Regulatory Accounting Statements and the Non-Financial Regulatory Templates. The information is presented in comment form accompanying each applicable table in the regulatory templates and includes details of assumptions and methodologies used to provide the underlying information, together with reasons for any information that could not be provided, or could not be provided in full. SA Power Networks has in all instances exercised best endeavours to fully comply with the AER’s information requests. It has been deemed necessary for SA Power Networks to make slight alterations to some of the regulatory templates in order to provide the most meaningful responses to the AER, and in order to enable the AER to best achieve its regulatory objectives. In each case, commentary has been provided to explain the reason for any changes to the templates.

A Microsoft Excel workbook titled *“Regulatory Adjustments – Item 1.1(d).xlsx“* is provided as Attachment 1.1(d) to this document, which reconciles and explains all movements between the Audited Statutory Accounts and the Regulatory Accounting Statements.

Should the AER require any further details or explanations as to any of the information provided in the Regulatory Accounting Statements, the Non-Financial Regulatory Templates, and the associated attachments provided, SA Power Networks will respond accordingly.

SA Power Networks’ current Capitalisation Policy is contained within the document titled *“Accounting Practices and Guidelines Manual”* provided as Attachment 1.1(e) to this document. This Policy applied for the duration of the 2012-13 regulatory year (Refer section 3. Fixed Assets).

SA Power Networks’ policies for determining the allocation of shared costs for both the 2011-12 and 2012-13 regulatory years are those specifically contained within the current approved Cost Allocation Method, which is provided as Attachment 1.1(f) to this document. As per Section 3 (page 6), overall responsibility for the Cost Allocation Methodology is with the Chief Financial Officer for SA Power Networks. Responsibility for updating, maintaining and applying the Cost Allocation Method sits with the Regulatory Accountant. SA Power Networks’ regulatory allocation of shared costs is calculated each year by the Regulatory Accountant, who is best placed both to report on, and ensure compliance with the approved shared cost allocations as detailed in Section 6.3 (pages 15-26) of the Cost Allocation Method. In addition, Sections 7 and 8 on page 31 detail the record maintenance and compliance procedures associated with shared cost allocations, together with overall adherence with the Cost Allocation Method.

##### Item 1.2

For each of the following items, identify each Material difference between that reported in the Regulatory Accounting Statements and that provided for in the 2010-15 Distribution Determination for the Relevant Regulatory Year:

1. total actual revenue and total forecast revenue;
2. total actual Operating Expenditure and total forecast Operating Expenditure;
3. total actual Maintenance Expenditure and total forecast Maintenance Expenditure; and
4. total actual Capital Expenditure and total forecast Capital Expenditure.

**SA Power Networks’ response**

The Regulatory Information Notice defines *Material* as “The difference that is greater than 10 percent between the AER approved forecasts (as per the 2010-15 Distribution Determination adjusted by CPI to the relevant regulatory year dollar value), and SA Power Networks’ reported actual amount.” In applying this definition, there is a Material difference between SA Power Networks’ reported total actual Maintenance Expenditure and total forecast Maintenance Expenditure for the year ended 30 June 2013. As per Table 1 in Template 8 of the Regulatory Accounting Statements, total actual Maintenance Expenditure for standard control services was $115.3 million versus a forecast total of $104.4 million (adjusted for CPI and the AER-approved Vegetation Clearance pass through event). This represents a 10.4% variance between actual and forecast costs.

Variances in the other items identified in paragraph 1.2 were within the AER’s materiality threshold for the regulatory year.

##### Item 1.3

Explain the reasons for any underlying operational activities or drivers that caused each Material difference identified in the response to paragraph 1.2.

**SA Power Networks’ response**

The primary expenditure categories underlying the $10.9 million (10.4%) variance in total actual Maintenance Expenditure as compared to forecast (identified in the response to item 1.2 above) are Vegetation management, Inspection, Demand management and Guaranteed Service Level (GSL) payments. Explanations for expenditure variances against forecasts for these items are contained in Table 2 of Template 8 of the Regulatory Accounting Statements.

##### Item 1.4

Explain the procedures and processes used by SA Power Networks to ensure that the *distribution services* have been classified as determined in the 2010-15 Distribution Determination.

**SA Power Networks’ response**

The information provided in the regulatory templates has been prepared in accordance with the definitions of standard control distribution services, alternative control distribution services, negotiated distribution services, unregulated services and unallocated items as set out in the Notice and the AER’s 2010-15 Distribution Determination.

SA Power Networks’ accounting and financial reporting systems are maintained in SAP, its integrated business management system. Revenue and costs are assigned against capital and operating job/work orders in SAP. These capture revenue and costs for distinct items of work which, for example, may be job specific or program specific. For major jobs or work programs, projects may be established in SAP as the reporting unit. This may be a collection of job/work orders summarised at a project level, or it may be a distinct business unit for reporting. This therefore represents an output view of revenue and costs.

Job/work orders are allocated a SA Power Networks activity when created in SAP. They are allocated to one activity only. Activities identify work outputs at a higher level than job/work orders. Activities are the link to identifying regulatory costs and revenues, as they measure the directly attributable revenue and costs of different lines of business for each of SA Power Networks’ distribution service categories. SA Power Networks has in place a comprehensive activity structure that defines the lines of work to which each transaction relates. The activity structure is consistent with the categories specified in the 2010-15 Distribution Determination. The activity numbers and associated descriptions clearly identify revenue and cost as either relating to standard control services (operating or capital), alternative control services (operating or capital), negotiated services (operating or capital) or unregulated services.

In the case of general operating transactions, revenue and costs consolidate to a profit centre which includes an activity view. A profit centre reports both an input and output view of revenue and costs. In the case of capital expenditure, costs ultimately settle to an asset in the balance sheet.

Regular reviews are conducted by staff within the corporate, operational and regulatory finance groups in order to ensure that revenue and costs have been correctly allocated against each reporting activity, to query the validity of any material or abnormal transactions, and to reassign any transactions found to be incorrectly classified to their correct activities.

Corporate groups support the operational functions of SA Power Networks. Corporate (or shared) costs are allocated across operating activities only. Each corporate group’s costs are allocated between standard control services, alternative control services, negotiated services and unregulated services based on allocations that best reflect the type of services provided. A full description of corporate cost allocations is contained within SA Power Networks’ Cost Allocation Method.

As part of the external audit review of the Regulatory Accounting Statements, SA Power Networks’ compliance with its approved Cost Allocation Method is also tested.

##### Item 1.5

Explain the procedures and processes used by SA Power Networks to ensure that the *negotiated distribution service* criteria, as set out in the 2010-15 Distribution Determination, have been applied.

**SA Power Networks’ response**

In respect of negotiated distribution services, SA Power Networks continues to apply the procedures and processes for customer enquiries and applications that were in place prior to the establishment of the negotiation framework (that is, those procedures and processes that applied to Excluded Distribution Services). SA Power Networks’ procedures and processes comply with the timeframes contained within the negotiation framework and are monitored for compliance. SA Power Networks’ internal audit group completed a review of regulatory compliance with the negotiation framework in November 2011. This review examined the business controls and practices in place in the context of the negotiation framework. The audit determined that there were no material non-compliances with the negotiation framework.

The charges for SA Power Networks’ negotiated distribution services are based on an estimate of materials, labour, transport and contractor costs plus contingencies (as SA Power Networks normally provides a fixed price) for completing the service. Overheads are then added in accordance with our Cost Allocation Method. A small margin is then added to most negotiated distribution services to provide a fair and reasonable charge that is between the avoidable and stand alone cost, in accordance with negotiated distribution service criteria.

Charges for SA Power Networks’ negotiated connection services comply with the South Australian Electricity Distribution Code (EDC). The NER contain a derogation that SA Power Networks is required to comply with the EDC for new and upgraded connections (refer Rule 9.28.3).

##### Item 1.6

Describe the process the DNSP has in place to identify negative change events under clause 6.6.1(f) of the NER and the threshold of materiality applied by SA Power Networks to these events.

**SA Power Networks’ response**

SA Power Networks routinely monitors its legal and regulatory obligations, and our performance against them, to ensure that we identify any changes that will impact on our distribution business. Any change identified is assessed for its impact on the business, for either higher costs, or lower costs. Where potential impacts exceed certain thresholds we will make an application to the AER for a pass through.

For general pass through events, materiality is assessed relative to a level equivalent to 1% of revenue per annum. For other specific pass through events, materiality is assessed relative to the circumstances of the matter.

There were no negative pass through events (i.e. lower costs) identified during 2012/13.

### 2. COST ALLOCATION TO THE REGULATED DISTRIBUTION BUSINESS

##### Item 2.1

Identify each item in the Regulatory Accounting Statements that is:

1. not allocated on a directly attributable basis but is allocated on a causation basis to the *distribution business*; and
2. not allocated on a directly attributable basis and cannot be allocated on a causation basis to the *distribution business*.

 **SA Power Networks’ response**

Refer SA Power Networks’ response following item 2.3 (below). An aggregated response has been provided to address related items 2.1, 2.1, and 2.3.

##### Item 2.2

For each item identified in the response to paragraph 2.1(a):

1. state the amount of the item that has been allocated;
2. explain the method of allocation and reasons for choosing that method; and
3. state the numeric amount of the allocator(s) used.

**SA Power Networks’ response**

Refer SA Power Networks’ response following item 2.3 (below). An aggregated response has been provided to address related items 2.1, 2.1, and 2.3.

##### Item 2.3

For each item identified in the response to paragraph 2.1(b):

1. state its amount;
2. state whether it was Material;
3. explain the method of allocation and reasons for choosing that method; and
4. explain the reason(s) why it cannot be allocated on a causation basis.

**SA Power Networks’ response in relation to items 2.1, 2.2 and 2.3**

SA Power Networks (being the Regulated Distribution Business) does not have any costs such as subsidiary charges or management fees allocated to it, on any basis. Rather, all costs are initially captured at the distribution business level, and are then spread across the service segments (being standard control services, alternative control services, negotiated distribution services and unregulated services), or are treated as an unallocated item. Costs are distributed on either a directly attributed basis, or an allocation basis, as is fully documented in our Cost Allocation Method. SA Power Networks’ response to items 3.1, 3.2 and 3.3 (below) demonstrates the application of the Cost Allocation Method to allocate costs from the distribution business to the service segments.

### 3. COST ALLOCATION TO SERVICE SEGMENTS

##### Item 3.1

Identify each item in the Regulatory Accounting Statements that is:

1. not allocated on a directly attributable basis but is allocated on a causation basis from the *distribution business* to a service segment; and
2. not allocated on a directly attributable basis and cannot be allocated on a causation basis from the *distribution business* to a service segment.

 **SA Power Networks’ response**

A Microsoft Excel workbook titled *“Cost Allocation to Service Segments – Items 3.1-3.3.xlsx”* is provided as Attachments 3(a) and 3(b) to this document. The spreadsheet tab titled *“Cost Allocations”* (Attachment 3(a)) contains a table which shows SA Power Networks’ detailed cost allocations between service segments (in ‘$000), which reconciles with the overheads allocation information provided in Table 1 of Template 15 in the Regulatory Accounting Statements. There is a column in this table headed (Causal / Non-causal). There are the abbreviations “C” or “NC” in this column against each allocation item, which either indicates that the cost item is allocated on a causal basis (C), or a non-causal basis (NC). The classification of cost allocations as being on a causal or non-causal basis in this table is consistent with the classifications contained in SA Power Networks’ approved Cost Allocation Method (refer Table 4: Allocated Costs, pages 16-25).

##### Item 3.2

For each item identified in the response to paragraph 3.1(a):

1. state the amount of the item that has been allocated;
2. explain the method of allocation and reasons for choosing that method; and
3. state the numeric amount of the allocator(s) used.

**SA Power Networks’ response**

1. As indicated in SA Power Networks’ response to item 3.1, a Microsoft Excel workbook titled *“Cost Allocation to Service Segments – Items 3.1-3.3.xlsx”* is provided as Attachments 3(a) and 3(b) to this document. The spreadsheet tab titled *“Cost Allocations”* (Attachment 3(a)) contains a table which shows SA Power Networks’ detailed cost allocations between service segments (in ‘$000), which reconciles with the overheads allocation information provided in Table 1 of Template 15 in the Regulatory Accounting Statements. The total column shows the amount of each of the items allocated on a causal basis (indicated by the abbreviation “C”).
2. In developing its Cost Allocation Method, SA Power Networks assessed each cost item to determine the most relevant basis for allocating those costs across service segments. An appropriate causal basis of allocation was determined for the majority of allocated cost items (e.g. Human Resources and Property costs are allocated on the basis of FTE / labour splits). The methods of allocation of each cost item are fully described both in Table 4 of SA Power Networks’ approved Cost Allocation Method and in the column titled *“Description of the basis of allocation*” in Table 1 of Template 15 in the Regulatory Accounting Statements.
3. The table in spreadsheet tab titled *“Cost Allocations”* in Attachment 3(a) contains a column titled *“Allocation basis”.* Each cost item has an allocation basis listed against it (e.g. for Customer response the allocation basis is titled *“Regulated revenue”.* The allocation basis listed against each cost item can be referenced against the table contained in the spreadsheet tab titled *“Allocation %”* (Attachment 3(b)) in order to obtain the percentage splits used to allocate those costs across the standard control, alternative control, negotiated services and unregulated service segments for the regulatory year.

##### Item 3.3

For each item identified in the response to paragraph 3.1(b):

1. state its amount;
2. state whether it was Material;
3. explain the method of allocation and reasons for choosing that method; and
4. explain the reason(s) why it cannot be allocated on a causation basis.

**SA Power Networks’ response**

1. As indicated in SA Power Networks’ responses to items 3.1 and 3.2, a Microsoft Excel workbook titled *“Cost Allocation to Service Segments – Items 3.1-3.3.xlsx”* is provided as Attachments 3(a) and 3(b) to this document. The spreadsheet tab titled *“Cost Allocations”* (Attachment 3(a)) contains a table which shows SA Power Networks’ detailed cost allocations between service segments (in ‘$000), which reconciles with the overheads allocation information provided in Table 1 of Template 15 in the Regulatory Accounting Statements. The total column shows the amount of each of the items allocated on a non-causal basis (indicated by the abbreviation “NC”).
2. As per the table in Attachment 3(a), a total of $66.744 million in corporate costs were allocated across service segments. Out of this total, only $10.353 million worth of allocations (approximately 16%) were done on a non-causal basis (i.e. where no causation basis could be established). Applying the AER’s materiality disclosure parameters applied in the Regulatory Accounting Statements (i.e. individual items greater than 5% of total standard control and alternative control operating expenditure), no individual non-causal cost allocation would be considered Material.
3. In developing its Cost Allocation Method, SA Power Networks assessed each cost item to determine the most relevant basis for allocating those costs across service segments. An appropriate causal basis of allocation was determined for the majority of allocated cost items. For those cost items where no causation basis could be established, appropriate proxy allocations were chosen in order to most suitably allocate those costs. For example, the costs for the Chief Financial Officer are allocated based on a weighted average of the total allocations of all the finance groups.
4. The methods of allocation chosen for each non-causal cost item are fully described both in Table 4 of SA Power Networks’ approved Cost Allocation Method and in the column titled *“Description of the basis of allocation*” in Table 1 of Template 15 in the Regulatory Accounting Statements.

### 4. RELATED PARTY TRANSACTIONS

##### Item 4.1

Identify each Related Party with which a transaction has been conducted.

**SA Power Networks’ response**

During the 2012-13 Regulatory year, the consolidated entity (SA Power Networks) purchased goods or services from the following other related parties, on normal commercial terms and conditions:

1. CKI/HEI Electricity Distribution Holdings (Australia) Pty Ltd; and
2. Hutchison Telecommunications (Australia) Ltd.

During the 2012-13 Regulatory year, the consolidated entity (SA Power Networks) provided goods or services to the following other related parties, on normal commercial terms and conditions:

1. CKI/HEI Electricity Distribution Holdings (Australia) Pty Ltd; and
2. Hutchison Telecommunications (Australia) Ltd.

##### Item 4.2

Identify each transaction relating to the provision of *standard control* services, *alternative control services* or *negotiated distribution services* between SA Power Networks and a Related Party, where the transaction amount is greater than five per cent of the relevant total expenditure or revenue category. Relevant categories are standard control revenues, alternative control revenues, negotiated distribution services revenues, standard control capex, alternative control capex, standard control operations expenditure, standard control maintenance expenditure, alternative control operations expenditure, alternative control maintenance expenditure, negotiated distribution services expenditure.

**SA Power Networks’ response**

In relation to the relevant categories listed under Item 4.2, there was a transaction for services delivered by CKI/HEI Electricity Distribution Holdings (Australia) Ltd to SA Power Networks to provide systems and support relating to Full Retail Contestability. In the 2012-13 regulatory year, the value of the transaction represents approximately 6.3% of total standard control operations expenditure.

##### Item 4.3

For each transaction identified in the response to paragraph 4.2:

1. state the name of the Related Party;
2. identify any other parties involved;
3. explain the nature and purpose of the transaction, including the good(s) or service(s) provided by the Related Party;
4. state the actual costs incurred by the Related Party in providing good(s) or service(s), not including any profit margin or management fee incurred by SA Power Networks;
5. explain how the actual costs of the good(s) or service(s) incurred was determined;
6. identify the actual costs of the good(s) or service(s) in the Regulatory Accounting Statements, including the Asset category, Maintenance Cost category or Operating Cost category to which the actual cost(s) is allocated to; and
7. explain the basis upon which the actual costs of the good(s) or service(s) was or were allocated, as identified in the response to paragraph (f), and state the amount of any allocator applied.

 **SA Power Networks’ response**

1. The Related Party providing the service was CKI/HEI Electricity Distribution Holdings (Australia) Pty Ltd.
2. There were no other parties involved in the transaction.
3. The transaction relates to a negotiated annual Service Level Agreement for the provision of systems and support services relating to Full Retail Contestability.
4. Over the full regulatory year, a total amount of $6,902,989 (excluding GST), representing 12 monthly invoices, was recognised in SA Power Networks’ accounts as having been issued by CKI/HEI Electricity Distribution Holdings (Australia) Pty Ltd, in relation to the Service Level Agreement. As SA Power Networks does not have a direct control relationship with CKI/HEI Electricity Distribution Holdings (Australia) Pty Ltd, we do not have any information relating to the actual costs incurred by the Related Party in providing this service. It is SA Power Networks firm belief, however, that the service is provided on standard commercial terms and conditions. Should actual cost information be required, it will incumbent upon the AER to request this information directly from the Related Party.
5. As per our response to item (d) above, SA Power Networks does not have any information relating to the actual costs incurred by the Related Party.
6. The invoiced total of $6,902,989 (excluding GST) is included in the reported total for the Full Retail Contestability operating cost category in Table 1 of Template 10. The actual cost of the service is not known.
7. The invoiced cost is directly attributable to standard control services, consistent with the treatment of Full Retail Contestability costs in SA Power Networks’ Cost Allocation Method.

### 5. EFFICIENCY BENEFIT SHARING SCHEME

##### Item 5.1

Identify all changes between the Capitalisation Policy for the Relevant Regulatory Year and the Previous Regulatory Year.

**SA Power Networks’ response**

There were no changes to SA Power Networks’ Capitalisation Policy in the current year. This was similarly noted in Table 2 of the EBSS Template 18 in the Regulatory Accounting Statements.

##### Item 5.2

For each change identified in the response to paragraph 5.1:

1. state, if any, the financial impact of the change;
2. state the reasons for the change;
3. explain the effect of the change (excluding changes in accounting policies) if any, on:
(i) forecast Operating and Maintenance Expenditure incurred for the Relevant Regulatory Year;
(ii) forecast Capital Expenditure incurred for the Relevant Regulatory Year;
(iii) actual Operating and Maintenance Expenditure incurred for the Relevant Regulatory Year;
(iv) actual Capital Expenditure incurred for the Relevant Regulatory Year; and
4. explain the estimated effect of the change, if any, for the previous *regulatory year* on:
(i) actual Operating and Maintenance Expenditure incurred; and
(ii) actual Capital Expenditure incurred.

**SA Power Networks’ response**

As noted in SA Power Networks’ response to Item 5.1, there have been no changes to the Capitalisation Policy in the current year. Therefore no response is required for this item.

###

### 6. DEMAND MANAGEMENT INCENTIVE SCHEME

##### Item 6.1

In respect of the Demand Management Innovation Allowance:

1. provide an explanation of each demand management project or program for which approval is sought;
2. explain, for each demand management project or program identified in response to paragraph 6.1(a), how it complies with the Demand Management Innovation Allowance criteria detailed at section 3.1.3 of the *demand management innovation scheme,* with particular reference to:
(i) the nature and scope of each demand management project or program;
(ii) the aims and expectations of each demand management project or program;
(iii) the process by which each demand management project or program was selected, including the business case for the demand management project and consideration of any alternatives;
(iv) how each demand management project or program was/is to be implemented;
(v) the implementation costs of the demand management project or program; and
(vi) any identifiable benefits that have arisen from the demand management project or program, including any off peak or peak demand reductions;
3. provide an overview of developments in relation to the demand management projects or programs completed in previous years, and any results to date;
4. state whether the costs associated with each demand management project or program identified in the response to paragraph 6.1(a) are:
(i) not recoverable under any other jurisdictional incentive scheme;
(ii) not recoverable under any other Commonwealth or State Government scheme;
(iii) not included as part of:
(1) the forecast Capital Expenditure or the forecast Operating Expenditure; or
 (2) any other incentive scheme applied by the 2010-15 Distribution Determination;
5. provide the total amount of the Demand Management Innovation Allowance spent in the Current Regulatory Control Period and how this amount has been calculated.

**SA Power Networks’ response**

SA Power Networks does not wish to seek approval for any DMIA related expenditure in 2012-13.

SA Power Networks has a significant Demand Management (DM) program underway, with 10 permanent personnel within our DM group, and additional contractors and/or employees seconded periodically on specific projects.

While SA Power Networks has not reported any expenditure against the DMIS part A to date, this is considered a timing issue that reflects the fact that SA Power Networks has a range of funding sources available in order to undertake this work. Thus far this regulatory period (since July 2010), around $9 million has been spent on demand management related initiatives, with the largest component of this relating to our North Adelaide trials. This expenditure has been funded from the remains of the allowance that ESCOSA provided to us over the 2005-10 period.

SA Power Networks has already earmarked the total $3.1 million of funding available under the AER’s DMIS for specific projects – some of which have commenced since 1 July 2013, with the majority of the allowance expected to be utilised over the 2013-14 regulatory year.

### 7. FORGONE REVENUE

##### Item 7.1

In respect of Forgone Revenue:

1. identify any assumptions and/or estimates used in its calculation;
2. explain the reasonableness of those assumptions and/or estimates used in its calculation, including the reasons for SA Power Networks’ decision to adjust or not adjust for other factors and the basis for any such adjustments;
3. explain whether it is directly attributable to a demand management project or program approved by the AER under the Demand Management Incentive Allowance and, if so, how.

**SA Power Networks’ response**

As SA Power Networks does not seek approval for any DMIA related expenditure in 2012-13 (refer item 6.1 above), a calculation of forgone revenue is not required.

### 8. NON-FINANCIAL PERFORMANCE MONITORING INFORMATION

##### Item 8.1

Explain all Material differences between the target performance measure specified in the *service target performance incentive scheme* and actual performance reported in the response to paragraph 1.1(b) of Schedule 1.

**SA Power Networks’ response**

SA Power Networks’ actual performance against the target performance measures specified in the *service target performance incentive scheme* (STPIS) in the response to paragraph 1.1(b) of Schedule 1 of the Notice is summarised in the table below:

Table 1: SA Power Networks’ actual versus target STPIS performance for 2012/13

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | CBD | Urban | Rural Short | Rural Long |
| SAIDI Target | 27.1 | 104.4 | 184.0 | 270.2 |
| SAIDI Actual | 12.6 | 109.6 | 199.9 | 241.4 |
| **% variance** | **53.5%** | **-5.0%** | **-8.6%** | **10.7%** |
| SAIFI Target | 0.263 | 1.292 | 1.736 | 2.111 |
| SAIFI Actual | 0.158 | 1.232 | 1.645 | 1.484 |
| **% variance** | **39.9%** | **4.6%** | **5.2%** | **29.7%** |

In determining what constitutes a Material difference, the Regulatory Information Notice defines a threshold of greater than 10 percent between AER approved targets and SA Power Networks’ reported actual performance. In applying this definition to the information contained in Table 1 (above), SA Power Networks is required to explain the favourable performance as compared to the CBD SAIDI and SAIFI STPIS targets, as well as the favourable performance in the Rural Long SAIDI and SAIFI STPIS measures as compared to target.

**CBD**Typically, on more than 90% of days in a year, there are no interruptions that impact CBD customers. This means that even relatively small changes in the duration and frequency of interruptions can have a marked impact on CBD reliability. The impacts of approximately four to five days were reduced in 2012/13 as compared to the period used to establish the target. This was driven by a combination of favourable conditions.

**Rural Long**SA Power Networks has responded to the STPIS incentives by installing additional reclosers and sectionalisers on targeted feeders to reduce the number of customers affected by sustained interruptions. Consequently, some customers who might previously have experienced a sustained interruption would now experience a shorter (potentially momentary) interruption. In addition, SA Power Networks has re-insulated some sections of the 33kV distribution network in order to reduce the number of interruptions caused by lightning.

### 9. ASSET REPLACEMENT VOLUMES

##### Item 9.1

With respect to the asset replacement volumes reported on template 7 of the workbook attached at Appendix C, for each asset identify the proportion of total replacements that were a like-for-like replacement, where the new asset provided an equivalent level of service as the asset being replaced. If the proportion of like-for-like replacements is estimated, please provide details of the basis for the estimation.

**SA Power Networks’ response**

SA Power Networks considers that all of the asset replacement volumes reported in Template 7 of the Non-Financial Regulatory Templates can be considered like-for-like replacements, that is, the new assets are still providing an equivalent level of service as those assets that were replaced (notwithstanding advances that may have occurred in asset design and technology in accordance with current Standards).

SA Power Networks’ asset replacement expenditure has been significantly higher in the regulatory period to date than the forecast amounts allowed by the AER, resulting from the need to invest additional amounts to maintain the safety of the network. The work undertaken to date has primarily been limited to the replacement of high priority risk assets. Given the constraints of the asset replacement allowance, it is likely that barring, for example, asset obsolescence or changes to Standards disallowing like-for-like replacement, future replacements for the period will be limited to those of a like-for-like nature.

### 10. RECONCILIATION OF REGULATORY ASSET BASE

##### Item 10.1

Provide information that reconciles:

1. the incremental change in the Property, Plant and Equipment category within the Audited Statutory Accounts (that is, the change in the closing values of this category of the Balance Sheet between the previous regulatory year and the relevant regulatory year); and
2. the incremental change in the closing values for the Regulatory Asset Base between the Previous Regulatory Year and the Relevant Regulatory Year.

**SA Power Networks’ response**

The table provided as Attachment 10.1(a) to this document reconciles the incremental change (movement) in the Property, Plant and Equipment Balance Sheet category of the Audited Statutory Accounts for the period 1 July 2012 (opening balance) to 30 June 2013 (closing balance), in accordance with the values reported in Table 1 of Template 2 of the Regulatory Accounting Statements.

It is important to note that although some current year asset movements are reported in Capex Template 5, the closing value of the Regulatory Asset Base (as requested in Item 10.1(b)) is not reported in the Regulatory Accounting Statements. SA Power Networks has nonetheless calculated the incremental change in its Regulatory Asset Base for the year, which has been derived by inputting regulatory asset movements to the AER’s *‘Electricity Distribution Network Service Providers Roll Forward Model Version: 01, Date: 26 June 2008’.* This is the Model that SA Power Networks understands will be the one the AER will use to roll forward our Regulatory Asset Base. This reconciliation is provided as Attachment 10.1(b) to this document.

### 11. CHARTS

##### Item 11.1

Provide charts that set out:

1. the group corporate structure which SA Power Networks is a part of; and
2. the organisational structure of SA Power Networks.

**SA Power Networks’ response**

A chart is provided as Attachment 11.1(a) to this document, that sets out the group corporate structure which SA Power Networks is a part of.

SA Power Networks’ current organisational structure is contained in the chart provided as Attachment 11.1(b) to this document.

### 12. AUDIT REPORTS

##### Item 12.1

Provide Audit Report/s in the form of:

1. a Special Purpose Financial Report in accordance with the requirements set out at Appendix E of this Notice; and
2. an Audit Report/s (for Non-Financial Regulatory Templates information) in accordance with the requirements set out at Appendix E of this Notice.

**SA Power Networks’ response**

Audit reports are separately provided as part of our overall submission of the completed Notice to the AER.

In relation to the Regulatory Accounting Statements provided in response to paragraph 1.1(a) of Schedule 1 of the Notice, an audit opinion is provided by Deloitte.

In relation to the Non-Financial Regulatory Templates provided in response to paragraph 1.1(b) of Schedule 1 of the Notice, audit opinions are provided by:

* SKM, specifically in relation to templates 1(a), 1(c), 1(d), 1(e), 1(f) and 2; and
* KPMG, specifically in relation to template 1(b).

As per paragraph 1.1(b)(ii) of Appendix E to the Notice, information provided in response to template 7 Asset installation, for the 2012-13 regulatory year, is not subject to audit.

### 13. BOARD RESOLUTION

##### Item 13.1

Provide an extract from the board minutes or a resolution agreed to at a SA Power Networks board meeting that confirms that, to the best of the Board’s information, knowledge and belief:

1. the information provided in the response to paragraph 1.1(a) (being the information to be provided in the workbook attached at Appendix B) is true and fair; and
2. the *service target performance incentive scheme,* demand and asset installation information provided in the response to paragraph 1.1(b) (being the information to be provided in templates 1(a), 1(b), 1(c), 1(d), 1(e), 1(f), 2 and 7 of the workbook attached at Appendix C) is true and fair.

**SA Power Networks’ response**

An extract from the SA Power Networks Board Meeting is separately provided as part of our overall submission of the completed Notice to the AER. This states that the information contained in the Regulatory Accounting Statements (as per the requirements of Item 13.1(a)) and the Non-Financial Regulatory Templates (as per the requirements of Item 13.1(b)) is true and fair.

Furthermore, a statutory declaration, signed by the CEO of SA Power Networks, in the form specified by Appendix D to the Notice is also separately provided.