

17 January 2014

Mr Chris Pattas  
General Manager - Network Operations and Development  
Australian Energy Regulator  
Level 35, The Tower  
360 Elizabeth St  
Melbourne Victoria 3000  
via email: [expenditure@aer.gov.au](mailto:expenditure@aer.gov.au)

Dear Chris,

### **Draft Category Analysis RIN – Distribution**

This letter is in response to the draft Regulatory Information Notice (RIN) that relates to SP AusNet's Electricity Distribution business. SP AusNet welcomes the opportunity to provide this submission in response to the AER's draft RIN, and more broadly appreciates the consultative approach that has been taken in relation to the development of the RIN template.

SP AusNet understands that the RINs are being used to collate data to facilitate the benchmarking of expenditure at a disaggregated category level under the AER's Better Regulation program. This submission focuses on issues specific to the RIN, in particular related to the timeframe, data requirements and data availability.

This submission addresses the following areas:

1. Timeframe
2. Replacement Capex
3. Augmentation Capex
4. Demand Forecasting
5. Connections and customer driven works
6. Maintenance Expenditure
7. Non-network Expenditure
8. Overheads
9. Other items
10. Availability of data
11. Audit and submission matters

As a preliminary comment, it is noted that AER has chosen to maintain an approach to Category Benchmarking that involves a very high level of detail. Throughout the AER's consultation on Better Regulation, SP AusNet has advocated an approach that initially involves far less disaggregation and is revised and refined overtime as the analysis is developed. In our view, such an approach would be better suited to the timeframes, both for preparation of data by NSPs and for subsequent analysis by the AER. It would also prevent substantial resources of all parties being devoted to tasks that are of limited ultimate benefit (such as for areas of expenditure that are relatively immaterial or relatively unsuited to benchmarking), and minimise the duplication of effort required, should analysis reveal that a change in data reporting specification would be better suited to the task.

## **1. Timeframe**

We understand the AER's rationale for requiring the Category Analysis RIN to be submitted by NSP's by 31 May 2014, particularly given the AER's stated requirement to publish their Benchmarking Report by September, and appreciating the significant work that will be required in order to meet the AER's objective.

However, we have significant concerns regarding our ability to meet the 31 May 2014 deadline to submit all Category Analysis templates in their current form, along with a Directors statutory declaration and audit report. This is due to the following reasons:

- The volume and granularity of data proposed for the Category Analysis RIN is significant. This submission, along with previous discussions and workshops with the AER staff, have highlighted some of the difficulties that SP AusNet and other NSP's will face in providing this data as existing systems and processes do not support its capture, particularly with the requirement to provide 5 years historical data. While processes can be developed and assumptions made to estimate the some (but not all) data, this will take a significant amount of time to ensure a robust and reasonable process is developed and followed. In addition, the level of effort required by both auditor and preparer in order to satisfy the audit report requirements as well as to satisfy a due diligence process that supports the Director statutory declaration is significant and can add considerable time to an audit process.
- This is first time that the majority of this data is being prepared and the processes for capturing, reporting, verifying and auditing data have not been developed. In addition, testing those processes and reviewing the data or other output from them may require revisions to processes, assumptions and interpretations as well as duplication of effort, all of which will take time and resource. It will also require additional time for preparers and auditors in order to satisfy the audit reporting requirements given that this is the first time preparation.
- SP AusNet owns both a transmission and distribution business and as such is required to respond to 2 Category Analysis RIN's. The resources and data experts required to complete these exercises for SP AusNet are largely shared across the 2 businesses and the audit teams are also consistent for the 2 businesses.
- With a 31 March statutory year end and a 31 December distribution regulatory year end, SP AusNet has a significant number of other regulatory and statutory reporting

obligations that are all required around the same time and are all required to be audited. These include the following:

- Economic Benchmarking RIN for distribution business due 30 April;
- Economic Benchmarking RIN for transmission business due 30 April;
- Regulatory Accounting Statements for electricity distribution due 30 April;
- Regulatory Accounting Statements for gas distribution (timing yet to be determined);
- Statutory financial statements and reporting to ASIC and ASX on 14 May;
- Regulatory Accounting Statements for electricity transmission due 31 July
- Economic Benchmarking RIN for FY14 for transmission business due 31 July; and
- Category Analysis RIN for FY14 for transmission business proposed as due 31 July.

Our proposed solution, which we hope will be acceptable and still allow the AER to meet its objectives, is to follow a similar approach as the Economic Benchmarking RIN and have unaudited RIN responses due on 31 May, with the audit report and statutory declaration to be provided by 31 July. This will allow the AER to have access to the data from 31 May as is the current draft proposal, but give NSP's additional time to work through the audit requirements with their auditors. It also allows any significant concerns with the basis of preparation to be raised by the AER and addressed by the NSP prior to the audit being finalised. Changes made post audit report are much more problematic for the auditor and the Directors involved.

This proposed solution will still be a significant challenge for us to meet for the reasons detailed above. However, we believe that it will alleviate some of the time and resourcing pressure and will ultimately lead to a better quality response.

## **2. Replacement Capex**

Issues:

- Our data systems do not enable us to distinguish between replacements and new assets for augmentation or connection. This means we do not have supportable data on the annual numbers of asset replacements.
- Our financial data systems do not distinguish costs by sub-categories of assets. This means that the detailed expenditure splits would not be meaningful.
- We have no work code for transformers so cannot distinguish expenditure on this category.

In relation to Asset Age Profiles (Tab 5.2), SP AusNet's systems are not configured to capture this data for the asset categories of Switchgear, Service Lines and Public Lighting.

## **3. Augmentation Capex**

From a distribution network perspective SP AusNet has a number of projects which are 'part commissioned' in stages throughout the broader project term. Clarification is requested as to the correct treatment of these projects when applying the 'as commissioned' basis. Examples include major sub-station rebuilds.

Based on discussions at the most recent workshop, we understand that it is intended for businesses to include safety-driven expenditure in the Augex tab. For SP AusNet safety-

driven expenditure is a significant expenditure category. It is unclear at this stage, whether this is significant to the AER's data set and category benchmarking activity. However, consideration will need to be given to the treatment of safety driven augex in augex modelling.

The requirement to report the number of towers added and towers upgraded on augmentation projects on HV feeders will be very resource intensive. SP AusNet supports a proposal made at the Draft RIN workshop to limit this reporting to projects above a \$1 million threshold.

#### **4. Demand Forecasting**

It is noted that the templates '5.3 MD – Network Level' and '5.4 MD & utilisation-Spatial' indicate that data is required for a 9 year period (based on cells highlighted in yellow). At the Draft RIN workshop it was clarified that data beyond five years were optional to provide. For the purposes of audit and statutory declaration the final RIN template should make this explicit and the cells should be shaded differently (similar to the approach used in Economic Benchmarking for optional data).

SP AusNet does not have supportable demand data prior to 2009. The data no longer resides in the systems from which it was extracted at the time. This makes it impossible to retrospectively perform assurance procedures on.

#### **5. Connections and customer driven works**

In relation to Alternative Control Services (Tabs 4.3 and 4.4), SP AusNet does not separately capture these costs for the vast majority of costs.

In relation to Connections (Tab 2.5), asset data is not captured by driver which does not allow the differentiation between replacement, augmentation and connection asset volumes. While cost data is reported, splits between the AER's categories will require high level allocation rather than relying on actual data.

#### **6. Maintenance Expenditure**

SP AusNet intends to rely on historically generated reports to determine the 'average age of asset group' measure required in template '2.7 Maintenance'. This approach is needed as the system in which the data is maintained is 'live'. Historical reports are not available for years 1 and 2 as required by the template and without these historical reports the information cannot be reliably estimated.

In relation to the 'Inspection/maintenance cycle' non-financial data requested, SP AusNet notes that individual assets within the same asset category have significantly varying inspection/maintenance cycles. It is requested that the guidelines allow the use of an average measure. Furthermore, SP AusNet has reservations in relation to the usability of this data in benchmarking NSPs - due to the significant differences in asset maintenance cycles within categories.

#### **7. Non-network Expenditure**

In relation to 'Non-Network Expenditure - IT & Communications Expenditure', we have current year information available in relation to users of our systems and devices; however do not keep historical records regarding user numbers.

Expenditure on motor vehicles is not considered material business expenditure for SP AusNet. Fleet activities are outsourced and the fleet service provider does not have the data available for the complete 5 year period. Internal records are available for total motor vehicle expenditure however there is no reliable basis on which to estimate the network and non-network split and then further estimate the disaggregation by motor vehicle type.

Operating expenditure on buildings and property is not separately captured by our systems. Some estimates can be generated for recurring expenditure such as rental costs and rates. However, other expenditure such as rates & levies, maintenance and non-recurring costs are not separately available.

## 8. Overheads

In relation to the Labour information required in table '2.9.2 Total Overheads - internal labour costs', overhead labour data is captured on a combined electricity distribution and gas distribution basis. Assumptions can be made to split the total data pool into electricity and gas labour costs. However, in order to categorise the data into 'classification levels', average hours paid not worked etc., individual personnel data is needed. The information is not available in this level of granularity and cannot be reliably estimated.

## 9. Other Items

The following are some more minor comments and requests regarding the Category Benchmarking RIN.

- Definitions are requested for the following terms –
  - GSL breaches (2.7 Maintenance)
  - User numbers (2.14 Non-network)
  - Number of devices (2.14 Non-network) e.g. is this the total on hand including handheld devices?
  - Buildings & Property (2.14 Non-network) e.g. is there an expectation that 'Other Capex' in the Regulatory Accounts agrees to the total of 'MV Capex' and 'Building & Property Capex'? Should Buildings & Property capex encompass categories such as Office Equipment?
  - Mean days (4.1 Public Lighting) e.g. is this business days?
  - In the Labour tables, does average staffing level (ASL) include number of full time employees or equivalent?
  - In the Labour table definitions – what is the definition of stand down periods?
  - Meter Maintenance (4.2.2 Metering)
  - Meter Replacement (4.2.2 Metering)– specifically, are the costs associated with replacing dumb or manually read meters with smart meters captured in here
  
- In template '2.1 Expenditure Summary' there is no 'Connections' category included under Standard Control Opex. It is requested that this be included for reconciliation purposes.

- It would be helpful if the Final RIN template is updated so that the date labels reflect SP AusNet's regulatory year being a calendar year (the template currently refers to financial years).

## 10. Availability of Data

As discussed in the sections above, there are a number of difficulties that exist in relation to the provision of historical data. To provide a more meaningful guide to data availability, attached to this submission is a colour coded RIN template to reflect an initial assessment of what can be provided from SP AusNet's data systems. SP AusNet officers have not made any assessment of whether the data they could produce would be likely to pass audit as they are not qualified to make that assessment.

Colour Code	Availability of date from NSP's primary system	Additional work around / estimation techniques
Green	Available (in some cases with gaps)	<b>Straightforward/Moderate</b> - minor work around (e.g. source data from a secondary system) and in some cases estimate based on statistically significant sample size
Orange	Little or no data available	<b>Complex</b> - estimate based on formula, standard parameters or other source
Red	Little or no data available	<b>Impossible</b> - rough estimate (e.g. rule of thumb from experience) or not possible
Black	Not applicable to relevant NSP	Not applicable to relevant NSP

## 11. Audit and Submission Matters

The statutory declaration template provided requires a 'true and accurate' assurance requirement for financial information. This level of assurance is higher than the level of assurance required by auditors under the Auditing Standards of Australia in relation to opinions on both Statutory and Regulatory Reports and is not necessary for the AER to carry out its duties under the National Electricity Rules. Additionally, the cost of compliance to meet a 'true and accurate' level of assurance is significant. It is proposed that this be amended to 'true and accurate in all material aspects' or 'free from material misstatement and, in all material respects, presented fairly'.

In relation to the audit of non-financial data, the RIN instructions allow the use of a non-financial assurance firm where it is 'current practice' by the organisation for AER Annual Reporting Requirements. SP AusNet is engaging a non-financial assurance firm for the current year AER Regulatory Reporting and intends to use this same firm for the non-financial audit aspect of the Category Analysis RIN. Using a non-financial assurance firm reduces the financial burden of an audit and SP AusNet does not see a reasonable basis for being precluded from engaging a non-financial assurance firm for the audit of non-financial data in the Category Analysis RIN.

Throughout the Category Analysis RIN template the term 'actuals' is often used. There is a need to distinguish in the template 'actual data' from 'estimated data'. SP AusNet requires this to be replaced with 'actual / estimate from a certification (statutory declaration)

perspective and also from an audit perspective. Alternatively, the creation of separate templates for actual, estimated and consolidated information is needed.

SP AusNet would be pleased to address any queries you may have in relation to this submission. Please do not hesitate to contact Mei Kwan See Toh, Regulatory Finance Manager on (03) 9695 6597 if you wish to do so.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'Tom Hallam', written in a cursive style.

Tom Hallam  
Manager Economic Regulation