

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

Dear Chris,

Draft Category Analysis RIN – Transmission

This letter is in response to the draft Regulatory Information Notice (RIN) that relates to SP AusNet's Electricity Transmission 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

There is no guidance as to whether replacement expenditure is required to be provided on an 'as commissioned' or 'as incurred' basis. For the breakdowns required, SP AusNet systems and processes capture this data on an 'as commissioned' basis. Until projects are completed, costs are not assigned to specific assets. As such, the data requested is not available on an 'as incurred' basis.

3. Augmentation Capex

SP AusNet does not provide shared network Prescribed augmentation services. Therefore we will not be providing any data for this worksheet. We are assuming AEMO will be providing the AER with this data under its RIN in order that Victoria can be meaningfully benchmarked against other jurisdictions.

From a transmission network perspective, template '2.3 Augex Project Data' is considered not applicable to SP AusNet. The regulatory and licensing approach to transmission network augmentation in Victoria differs to the rest of the country. Under its license, SPI Powernet cannot augment the electricity transmission system except:

- a) in accordance with any guidelines published by the Essential Service Commission in relation to augmentation (there are no such guidelines); and
- b) pursuant to a network agreement with VENCORP (now AEMO) or a connection agreement with a distributor, generator or customer.

This clause has the effect of removing responsibility for transmission network augmentation from SP AusNet and placing the responsibility with AEMO for augmentation of the shared transmission network and the DNSPs for augmentation of the transmission connections. As a result of this, the costs and scope of transmission network augmentation is not our responsibility.

4. Demand Forecasting

SP AusNet does not believe we should be required to provide Demand data (Tabs 4.2 and 4.3) for the Victorian Transmission network.

From a transmission network perspective, SP AusNet is no visibility of data relating to electricity distribution outside of the network service provisions of SP AusNet. Ownership and collation of this data is by AEMO. SP AusNet cannot provide this data and cannot provide certification in relation to data obtained from AEMO.

We have previously advised the AER of a similar issue in relation to the Economic Benchmarking templates and been advised that we are required to seek this data from AEMO and warrant that it is the best estimate we can provide. We believe the appropriate organisation to get this information from AEMO is the AER who has the requisite information gathering powers. It seems incongruous to require SP AusNet to get this information (which we have never collected or been responsible for since the 1994 break up the Victorian Industry) when we have no powers to compel AEMO to provide us the information.

5. Connections and customer driven works

SP AusNet is intending to only provide data for prescribed connections and considers this complies with the RIN. The AER should clarify if this is inconsistent with its intentions.

In relation to Connections, clarification is sought as to whether Connections expenditure is required on an 'as incurred' or 'as commission' basis e.g. how should projects that commenced prior to 2008/09 but were completed after this time be captured? Clarification is also requested as to whether the template intends to capture contestable work?

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

SP AusNet does not capture labour data in a manner that would enable us to report the level of detail requested in table '2.8.2 Total Overheads - internal labour costs'.

In order to capture the data requested, we would need to know specifically which employees' time is captured as part of overheads. We are collecting the labour data based on timesheets. Based on this we can determine who's timesheets go to which work codes.

From a Corporate overheads perspective we can collate this data. However, we are unable to ascertain employees relating to Network Overheads and Indirect Capex costs (which are also captured in this template).

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 –
 - 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?
 - 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?

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)	Straightforward/Moderate - 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	Complex - estimate based on formula, standard parameters or other source
Red	Little or no data available	Impossible - 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