



# **SP AusNet Electricity Distribution Regulatory Information**

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**Responses to Schedule 1 (non-template)  
requirements**

**Submitted: 16 May 2014**



## Responses to Schedule 1 (non-template) requirements

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### About SP AusNet

SP AusNet is a major energy network business that owns and operates key regulated electricity transmission and electricity and gas distribution assets located in Victoria, Australia. These assets include:

- A gas distribution network delivering gas to approximately 630,000 customer supply points in an area of more than 60,000 square kilometres in central and western Victoria.
- A 6,580 kilometre electricity transmission network indirectly servicing all electricity consumers across Victoria;
- An electricity distribution network delivering electricity to approximately 660,000 customer connection points in an area of more than 80,000 square kilometres of eastern Victoria; and
- SP AusNet's vision is to provide customers with superior network and energy solutions.

SP AusNet is committed to the following corporate values:

- Safety: to work together safely. Protect and respect our community and our people.
- Passion: to bring energy and excitement to what we do. Be innovative by continually applying creative solutions to problems.
- Teamwork: to support, respect and trust each other. Continually learn and share ideas and knowledge.
- Integrity: to act with honesty and to practise the highest ethical standards.
- Excellence: to take pride and ownership in what we do. Deliver results and continually strive for the highest quality.

For more information visit: [www.sp-ausnet.com.au](http://www.sp-ausnet.com.au)

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**Responses to Schedule 1 (non-template) requirements**

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**Table of Contents**

<b>1</b>	<b>COMPLIANCE CHECKLIST</b>	<b>4</b>
1.1	SCHEDULE 1	4
<b>2</b>	<b>COMPLIANCE RESPONSES</b>	<b>6</b>
2.1	PROVIDE INFORMATION	6
2.2	COST ALLOCATION	7
2.3	RELATED PARTY TRANSACTIONS	8
2.4	EFFICIENCY BENEFIT SHARING SCHEME	8
2.5	DEMAND MANAGEMENT INCENTIVE ALLOWANCE	8
2.6	AMI EFFICIENCY IMPROVEMENTS	9
2.7	SAFETY AND BUSHFIRE RELATED ACTIVITIES	9
2.8	NON-FINANCIAL PERFORMANCE OUTCOMES	9
<b>A.</b>	<b>ATTACHMENT A: RECONCILIATION WORKBOOK</b>	<b>11</b>
<b>B.</b>	<b>ATTACHMENT B: REGULATORY ACCOUNTING PRINCIPLES AND POLICIES</b>	<b>12</b>
<b>C.</b>	<b>ATTACHMENT C: DEMAND MANAGEMENT INCENTIVE ALLOWANCE INFORMATION</b>	<b>13</b>
<b>D.</b>	<b>ATTACHMENT D: SP AUSNET CORPORATE STRUCTURE</b>	<b>14</b>
<b>E.</b>	<b>ATTACHMENT E: SP AUSNET ORGANISATIONAL STRUCTURE</b>	<b>15</b>
<b>F.</b>	<b>ATTACHMENT F: SPECIAL PURPOSE FINANCIAL REPORT</b>	<b>16</b>
<b>G.</b>	<b>ATTACHMENT G: NON-FINANCIAL AUDIT REPORT</b>	<b>17</b>
<b>H.</b>	<b>ATTACHMENT H: FINANCIAL AUDIT REPORT</b>	<b>18</b>
<b>I.</b>	<b>ATTACHMENT I: MINUTES OF BOARD RESOLUTION</b>	<b>19</b>

## Responses to Schedule 1 (non-template) requirements

### 1 COMPLIANCE CHECKLIST

SP AusNet's submission has addressed each of the requirements contained within the Regulatory Information Notice (RIN) received by SP AusNet on 4 Jun 12. A summary of these requirements is set out in the sections below.

#### 1.1 SCHEDULE 1

Schedule 1 of the RIN contains the requirements that SP AusNet must meet in respect of the Regulatory Information to be provided to the AER. The requirements under each clause in Schedule 1 are summarised below, together with comments on how SP AusNet has complied with the requirements.

**Table 1.1 – Summary of RIN Schedule 1 requirements**

Clause	Summary of requirement	Comments
1.1(a)	Provide financial information in templates	Refer to Financial Templates
1.1(b)	Provide performance indicator templates	Refer to Non-Financial Templates
1.1(c)	Provide a workbook reconciling and explaining all adjustments between statutory and regulatory accounts	Refer to Attachment A
1.1(d)	Provide Regulatory Accounting Principles and Policies and Capitalisation Policy	Refer to Attachment B
1.1(e)	Provide a statement of the policy for determining the allocation of overheads in accordance with the Cost Allocation Method (CAM)	Refer to section 2.1.1
1.2-1.3	Identify any changes in regulatory accounting policies	Refer to section 2.1.2
1.4-1.5	Identify and explain differences of greater than 10% between regulatory accounts and the 2011-15 determination for revenue, opex (assume this incl. maintenance), capex, energy sales	Refer to section 2.1.3
1.6-1.7	Identify and explain the impact of changes in the policy for allocating overheads	Refer to section 2.1.4
2.1	Identify which items are directly attributable, allocated on a causal basis, or allocated on a non-causal basis	Refer to section 2.2.1
2.2	Provide details on causal allocations (quantum and method)	Refer to section 2.2.2
2.3	Provide details on non-causal allocations	Refer to section 2.2.3
2.4	State that each item has been identified and allocated according to the CAM	Refer to section 2.2.4
3.1	Identify each Related Party to which a transaction has been conducted	Refer to Financial Template 26
3.2-3.3	Provide certain information as required by templates	Refer to Financial Template 26

## Responses to Schedule 1 (non-template) requirements

Clause	Summary of requirement	Comments
4.1	Identify changes in capitalisation policy (i.e. any items that were treated as opex but now as capex)	Refer to section 2.4.1
4.2	Provide specified information in respect of this change	Refer to section 2.4.1
5.1	Identify each demand management project/program that SP AusNet is seeking approval of	Refer to section 2.5.1
5.2	Provide certain information in support of the above projects/programs	Refer to section 2.5.1
5.3	State the amount of the Demand Management Incentive Allowance (DMIA) spent and explain how it was calculated	Refer to section 2.5.1 and Attachment C
6.1	Provide a description and estimate of all efficiency improvements for SP AusNet arising from Advanced Metering Infrastructure (AMI) activities	Refer to section 2.6.1
6.2	For each improvement, explain how the benefits arise from AMI and if quantifiable, state the quantum of benefits	Refer to section 2.6.1
7.1-7.4	Provide information on Safety and Bushfire activities.	Refer to Financial Template 27
8.1	Explain all material (>10%) differences between actual and target performance measures / outcomes	Refer section 2.8
9.1(a)	Provide a corporate structure which SP AusNet is a part of	Refer Attachment D
9.1(b)	Provide an organisational structure	Refer Attachment E
10.1(a)	Provide Special Purpose Financial Report	Refer Attachment F
10.1(b)	Provide non-financial audit report	Refer Attachment G
10.2	Provide all reports from the auditor to SP AusNet's management regarding the audit review or auditor's opinions or assessment	Refer Attachment H
11.1	Provide minutes of Board resolutions for financial and non-financial templates	Refer Attachment I

## 2 COMPLIANCE RESPONSES

### 2.1 PROVIDE INFORMATION

#### 2.1.1 COST ALLOCATION METHOD

SP AusNet's policy for determining the allocation of capitalised overheads is consistent with the approach outlined in section 5.7 of its approved Electricity Distribution Cost Allocation Method (CAM).

Similarly, the allocation of operating overheads was addressed and approved in section 5.6 of the CAM ("Shared or Allocated Costs").

#### 2.1.2 CHANGES TO REGULATORY ACCOUNTING PRINCIPLES AND POLICIES

SP AusNet confirms there were no changes to its Regulatory Accounting Principles and Policies for the year ended 31 December 2013.

#### 2.1.3 EXPLANATION OF VARIANCES BETWEEN REGULATORY ACCOUNTS AND 2011-15 EDPR

The following table presents the actual outcomes recorded in the regulatory accounts with amounts provided for in the 2011-15 EDPR, expressed in nominal (2013) dollars.

**Table 2.1 – Actual v. EDPR**

Item	Actual	EDPR	Variance (\$M)	Variance (%)
Revenue <sup>1</sup> (\$M)	504.9	494.1	10.8	2.2%
O&M <sup>2</sup> (\$M)	187.8	185.3	2.5	1.3%
Net capex <sup>3</sup> (\$M)	328.2	317.6	10.6	3.3%
Energy throughput (GWh)	7,501	7,962	(461)	(5.8%)

<sup>1</sup> Excluding revenue derived from pass through of grid fees.

<sup>2</sup> Excludes opex associated with Demand Management Incentive Allowance, and safety/bushfire related programs as part of the Victorian Bushfires Royal Commission recommendations (which are based on a pass through mechanism approved by the AER in 2012).

<sup>3</sup> Excludes direct capex associated with safety/bushfire related programs as part of the Victorian Bushfires Royal Commission recommendations (which are based on a pass through mechanism approved by the AER in 2012).

#### Explanation of variances +/- 10% compared to EDPR

None of the above items recorded variances of greater than +/-10%.

#### 2.1.4 IDENTIFICATION AND EXPLANATION OF CHANGES IN THE POLICY FOR ALLOCATING OVERHEADS

SP AusNet confirms there were no changes to its policy for allocating overheads for the year ended 31 December 2013.

## Responses to Schedule 1 (non-template) requirements

### 2.2 COST ALLOCATION

#### 2.2.1 IDENTIFICATION OF DIRECTLY ATTRIBUTABLE, AND ALLOCATED, COSTS

The following processes and tools are used to support SP AusNet's cost allocation method:

##### Directly Attributable Costs

- Direct Cost Attribution (by direct mapping of general ledger accounts or source transactions for materials and accounts payable transactions);
- Manual Project Journals (cost transfers); and
- Labour Timesheets.

##### Shared /Allocated Costs

- Activity Based Costing (ABC) analysis (including ABC Management Surveys and causal cost allocators).

SP AusNet's operating, maintenance and capital expenditure schedules are a mix of directly attributable and shared/allocated costs. Items allocated on a causal basis are outlined below. No items are allocated on a non-causal basis.

#### 2.2.2 PROVIDE DETAILS ON CAUSAL ALLOCATIONS

##### Operating and Maintenance expenditure

SP AusNet employs an ABC approach to allocate those remaining costs that are not directly attributed via the methods discussed above. These 'shared' costs are initially pooled within the projects ledger against cost centre 'overhead / administration' project codes, and then capitalised or allocated between relevant categories of services, for regulatory reporting, on the basis of causal cost drivers as follows:

- Significant non-labour items, such as general insurance premiums, stores costs and audit fees, and other significant non-project non-labour costs are allocated to service categories by the Regulatory Accounting team using appropriate causal cost drivers, such as asset values or inventory transactions;
- Non-project costed labour (i.e. labour costs not directly charged to projects) and other general administrative and overhead costs, are subject to allocation via a formal, quarterly, business-wide, effort-based ABC survey conducted for every SP AusNet responsibility centre; and
- Management service charges from SPI Management Services Pty Ltd (SPIMS) are allocated between distribution service categories on the basis of a formal, quarterly, effort-based ABC survey completed by every SPIMS employee (i.e. SPIMS ABC Survey). In turn, the service charges are allocated to capital and operating cost categories for regulatory reporting in proportion to the direct expenditure incurred in those cost categories.

In respect of the 2013 regulatory accounts, the below table summarises the amounts allocated under each of the above three points.

**Table 2.2 – Operating and Maintenance causal allocations (\$'000)**

Item	Non-labour items	SP AusNet ABC survey	SPIMS ABC survey	Total allocated
Standard control services	\$19,054	\$64,418	\$4,641	\$88,113

## Responses to Schedule 1 (non-template) requirements

### **Capital expenditure**

The majority of capital expenditure is directly attributed from work codes which capture the costs directly charged to capital projects. The exception is certain general or IT projects which need to be allocated between the electricity and gas distribution businesses.

In the 2013 Regulatory Accounts, SP AusNet has allocated the following amounts to the electricity distribution business:

**Table 2.3 – Capital expenditure causal allocations (\$'000)**

Item	Amount allocated	Numeric allocator	Basis for allocation
General IT capital expenditure	\$4,111	70% of cost to electricity distribution business	Based on SP AusNet's internal cost allocation practice which has had regard to historic head count, RAB, operating expenditure and capital expenditure

### **2.2.3 PROVIDE DETAILS ON NON-CAUSAL ALLOCATIONS**

SP AusNet confirms it does not allocate any costs on a non-causal basis.

### **2.2.4 ALIGNMENT OF REGULATORY ACCOUNTS COST ALLOCATION METHODOLOGY AND CAM**

SP AusNet confirms that it has identified and allocated costs to its electricity distribution network in accordance with its approved CAM.

## **2.3 RELATED PARTY TRANSACTIONS**

As reported in Template 26 of the audited financial information template.

## **2.4 EFFICIENCY BENEFIT SHARING SCHEME**

### **2.4.1 CHANGES TO CAPITALISATION POLICY**

As reported in Template 21 of the audited financial information template.

## **2.5 DEMAND MANAGEMENT INCENTIVE ALLOWANCE**

### **2.5.1 DEMAND MANAGEMENT PROJECTS/PROGRAMS FOR APPROVAL**

SP AusNet has provided the required information in Attachment C.



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## Responses to Schedule 1 (non-template) requirements

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### 2.6 AMI EFFICIENCY IMPROVEMENTS

#### 2.6.1 EFFICIENCY IMPROVEMENTS DERIVED FROM THE AMI PROGRAM

As at 31 December 2013, approximately 385,000 meters in SP AusNet's network were logically converted to type 5 meters in the National Electricity Market (NEM) and communicating remotely. Due to systems issues with SP AusNet's AMI solution, SP AusNet has not yet experienced operational cost savings arising from remote meter reading or remote connection or disconnection of supply.

SP AusNet is utilising AMI to improve its network operations management. SP AusNet is currently utilising aggregated AMI data to analyse loading on its network. This includes voltage profiling and load profiling of distribution transformers and corresponding areas of supply. SP AusNet is also using AMI data to identify the deterioration of low voltage service connection or loss of low voltage neutral. This can provide early warning of excessive loading on circuit elements which can enable prioritisation of replacement works. This will lead to a reduction to the costs associated with degradation or failure of network assets and avoid customer outages associated with failures.

### 2.7 SAFETY AND BUSHFIRE RELATED ACTIVITIES

As reported in Template 27 of the audited financial information template.

### 2.8 NON-FINANCIAL PERFORMANCE OUTCOMES

This section explains the material differences (>10%) between the target performance measure specified in the Service Target Performance Incentive Scheme (STPIS) and the actual performance achieved in 2013 as required by Section 8.1 of the Regulatory Information Notice. Major Variations

- **NETWORK USAIDI**

Network USAIDI was 22% better than the STPIS Target (170.2 versus 133.1). This result was consistent with the performance in 2012 and was again driven (like in 2012) by underlying improvement and favourable weather throughout the year (net of excluded events).

The underlying improvement is driven by an extensive investment program and operational changes undertaken by SP AusNet during the previous and current regulatory control periods. These include:

- A substantial investment in distribution feeder automation (DFA) – this increases the network's ability to self-heal during outage events.
- Key feeder reviews – This is where a feeder were patrolled for reliability risk and all works were undertaken to bring the feeder up to standard (This is in addition to normal patrols).
- Targeted vegetation management – Extra money was spent on clearing trees along the first section of feeders to reduce the number of full feeder faults.

A breakdown of the network shows the favourable variance to target was across the entire network, rural and urban.

## Responses to Schedule 1 (non-template) requirements

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- **NETWORK USAIFI**

Network USAIFI was 16% better than the STPIS Target (2.24 versus 1.89). The variance was driven by underlying improvement and favourable weather throughout 2013 (net of excluded events).

As with USAIDI, all networks (urban and rural) outperformed the target.

(See commentary on the underlying improvement above)

- **NETWORK MAIFI**

Network MAIFI was 8% above the STPIS Target (5.15 versus 4.89). As this result was within 10% of the target, no further commentary is provided.

**A. ATTACHMENT A: RECONCILIATION WORKBOOK**

**B. ATTACHMENT B: REGULATORY ACCOUNTING PRINCIPLES AND POLICIES**

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**Responses to Schedule 1 (non-template) requirements**

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**C. ATTACHMENT C: DEMAND MANAGEMENT INCENTIVE ALLOWANCE INFORMATION**

**D. ATTACHMENT D: SP AUSNET CORPORATE STRUCTURE**

**E. ATTACHMENT E: SP AUSNET ORGANISATIONAL STRUCTURE**

**F. ATTACHMENT F: SPECIAL PURPOSE FINANCIAL REPORT**



**G. ATTACHMENT G: NON-FINANCIAL AUDIT REPORT**

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**Responses to Schedule 1 (non-template) requirements**

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**H. ATTACHMENT H: FINANCIAL AUDIT REPORT**

**I. ATTACHMENT I: MINUTES OF BOARD RESOLUTION**