

31 January 2024



Part of the Energy Queensland Group

Dr Kris Funston
Executive General Manager – Networks Regulation
Australian Energy Regulator
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CANBERRA, ACT, 2601

By email: networksinformation@aer.gov.au

Dear Dr Funston

RE: Draft Order – Distribution Networks

Ergon Energy Corporation Limited (Ergon Energy) and Energex Limited (Energex), welcomes the opportunity by the Australian Energy Regulator (AER) to provide comment on its Draft Annual Information Orders for electricity distribution networks.

This submission is made by Ergon Energy and Energex in their capacity as distribution network service providers (DNSPs) in Queensland.

If you have any questions or require any further information in relation to the attached submission, please contact Kylie Douglas on [REDACTED]

Yours sincerely

[REDACTED]

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Encl: Ergon Energy and Energex submission on the AER Draft Order for Electricity Distributors_31 January 2024



Ergon Energy's and Energex's submission to the Australian Energy Regulator

Draft Regulatory Information Order for Electricity Distributors

31 January 2024



Part of Energy Queensland



AER Draft Order for Electricity Distributors

ABOUT ERGON ENERGY

Ergon Energy Corporation Limited (Ergon Energy) is part of the Energy Queensland Group and manages an electricity distribution network which supplies electricity to more than 740,000 customers. Ergon Energy's vast operating area covers over one million square kilometres – around 97 per cent of the state of Queensland – from the expanding coastal and rural population centres to the remote communities of outback Queensland and the Torres Strait.

It's electricity network consists of approximately 178,000 kilometres of powerlines and 1.7 million power poles. Ergon Energy also owns and operates 33 stand-alone power stations that provide supply to isolated communities across Queensland which are not connected to the main electricity grid.

ABOUT ENERGEX

Energex Limited (Energex) is part of the Energy Queensland group and builds, operates and maintains the electricity distribution network in the growing region of South East Queensland which includes the major urban areas of Brisbane, Gold Coast, Sunshine Coast, Logan, Ipswich, Redlands and Moreton Bay.

It's electricity distribution area runs from the New South Wales border north to Gympie and west to the base of the Great Dividing Range and Energex's world-class energy products, services and expertise has allowed it to provide electricity to homes and business for more than 100 years. Today, Energex provides distribution services to more than 1.5 million domestic and business connections, delivering electricity to a population base of around 3.5 million people via 55,200km of overhead and underground network.

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1 INTRODUCTION

On 7 December 2023, the Australian Energy Regulator (AER) published its Draft Annual Information Orders (Draft Orders) and accompanying explanatory statement for electricity distributors. The Draft Orders set out the AER's information requirements and the timing for future updates to information requirements.

Ergon Energy and Energex welcome the opportunity to provide comment to the AER on its Draft Orders. This submission is provided by Ergon Energy and Energex in their capacity as distribution network service providers (DNSPs) in Queensland and their detailed comments are set out below.

2 KEY MESSAGES

Ergon Energy and Energex considers the AER has given due regard to issues and concerns raised throughout all stages of consultation and would like to express our appreciation for the well managed consultation process. We are supportive of the AER issuing a Regulatory Information Order (RIO) as this is a step change in promoting reporting comparability amongst the specific class of regulated network service providers to the benefit of users of the information.

We are broadly supportive of the Draft Order reporting requirements. As such, our submission primarily seeks clarification around the interpretation of requirements and definitions or are administrative in nature (i.e.: formatting). However, we do have some concerns, including the following:

- The new supporting information that was introduced in the Draft Order at Section 4.3 Regulatory Adjustments to report journals (debits/credits) for regulatory adjustments between the Audited Statutory Accounts and the Distribution Business. Our concern is that journals aren't reflective of our process in reporting regulatory adjustments, which are one-sided adjustments for auditors to verify. Many electricity distributors do not report a regulatory balance sheet or maintain a separate Enterprise Resource Planning (ERP) system.
- To avoid unnecessary reporting burden and to streamline reporting requirements for Service Performance (Interruptions to supply, Reliability, Momentary Interruptions, Other Service Measures) we have presented suggested refinements to the data workbooks, instructions, and definitions for the AER's consideration.

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3 COMMENTS ON DRAFT REGULATORY INFORMATION ORDER

3.1 GENERAL REQUIREMENTS

Security of critical infrastructure and Confidentiality claims

Section 2.3(b) (ii) Security of critical Infrastructure (SOCI) and 2.4.1(c) confidentiality claims require shading/highlighting of all information that is subject to the SOCI Act or a claim of confidentiality. Similar to the approach recently used for Reset Regulatory Information Notices (RINs), the insertion of macros into data workbooks to streamline the highlighting of these entries would be beneficial and provide a standardised and efficient way for distributors to meet these requirements. This would also allow the AER to lock the formatting of final issued workbooks without prohibiting those electricity distributors who choose to submit information in the form of XLS workbooks¹ from meeting these SOCI/confidential information requirements.

Additional comments are included in section 7 of this submission response, titled '*Comments on Explanatory Statement Attachment A: Information Updates, Scope of the Review*'.

3.2 SUPPORTING INFORMATION REQUIREMENTS

4.3 Regulatory Adjustments

Ergon Energy and Energex strongly recommend this requirement is removed.

In our opinion, the new regulatory adjustments requirement, introduced at Section 4.3 Regulatory Adjustments of the Draft Orders, is unjustified as electricity distributors do not report a regulatory balance sheet or maintain a separate ERP system. Therefore, regulatory adjustments aren't double sided journals (debits/credits) entered to an ERP. In practice, regulatory adjustments are single sided adjustments made in a working paper for auditors to verify. This keeps Non-Network ICT costs manageable. This approach is prudent and efficient, and prepares special purpose reports in the manner and format that fulfils the reporting framework as determined by the AER. Further, as an example, a journal is of no use when statutory depreciation is replaced with regulatory depreciation as they are prepared under different standards or guidelines.²

It is also unclear how regulatory adjustments relate to all excel workbooks in Appendix A of the Draft Order when regulatory adjustments are only reported in data workbooks where the worksheet: Distribution Business is reported with the column: Audited Statutory Accounts.

¹ per 2.1.1(d) of the Draft Annual Order – electricity distributors

² Statutory depreciation is prepared under AASB 116 Property, plant and equipment and regulatory depreciation is prepared under the AER Roll Forward Model.

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3.1 Requirements to provide information specified in data workbooks

We recommend the instructions to 'prepare the information specified in the data workbooks in accordance with the instructions set out in the data workbooks' be expanded to include a requirement to prepare the information in accordance with the instructions and definitions set out in the data workbooks.

4.10 Demand management innovation allowance mechanism

There is an error in the abbreviation, DMIAN in 4.10.2 (b) and it should be DMIAM

4.23 Safety

A *significant event* is defined as significant under the network service providers (NSPs) Electrical Safety Management System. We acknowledge the AER has amended this definition following previous concerns raised in relation to the AER prescribing a definition. However, for avoidance of doubt, we are seeking guidance on whether the AER considers significant events to be only those events where the electricity network was the cause of the incident and not events caused by third parties, i.e., motor vehicle accidents or natural disasters. Specific feedback on Section 4.23 requirements is provided below:

- 4.23.2 (b) the impact on network personnel is not currently captured separately and will be difficult to report in the initial year(s) until systems are reconfigured to obtain this information.
- 4.23.2 (c) as distribution networks aren't privy to the impact of an event on the public, we suggest this be reworded to read any potential impact.
- 4.23.2 (d) does the AER consider property would incorporate livestock deaths.
- 4.23.2 (e) Ergon Energy and Energex do not capture estimates in source systems for significant events.
- 4.23.2 (g) and (h) Ergon Energy and Energex consider the supporting information requirements (g) and (h) are duplicative. Reporting under Workplace Health and Safety legislation and reporting to the jurisdictional safety Regulator is synonymous to Electrical Safety Office reporting. If these two requirements are mutually exclusive for other distribution networks, we will refer to our response in (g) when reporting against requirement 4.23.2(h).

4.24 Large Projects

As the term 'large projects' is defined it should be in italics.

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3.3 BASIS OF PREPARATION

Refer to section 6 of this submission, titled '*Comments on Appendix C: Basis of Preparation Template*'.

3.4 ASSURANCE REQUIREMENTS

6.6 Audit of Actual Financial Information

For clarity, Ergon Energy and Energex suggest the AER amend the following requirement, specifically to include the wording underlined:

Note: the assurance requirements at section 6.7 will apply to the data requirements listed in section 6.6.2 (excluding auto populated cells per sub-section 6.4.3). Currently, as Workbook 6 – Standard Control – Vegetation management - total vegetation management, is exempt from the audit standard ASA 805 a direct match for this in Workbook 6 is the auto populated cell 'total vegetation management' instead of expenditure by vegetation management category.

6.7 Review of estimated financial information.

The assurance standard in 'Data Category 06: Operating expenditure, Opex category and Guaranteed service level - payments for Audited Statutory Accounts and Regulatory Adjustments' only applies ASA805 (actual financial information). This is inconsistent with the written Draft Order as Section 6.7 doesn't prohibit this information from being reported as estimated financial information subject to audit under ASRE 2405.

4 COMMENTS ON APPENDIX A: DATA WORKBOOKS

4.1 GENERAL INSTRUCTIONS

1.1.2 Data requirements - formatting

Sub-section 1.1.2 Data Requirements should be amended to indicate input cells are shaded light green (not green). This is because the data Workbooks contain dark green cells with auto populated fields that are outside of the audit and review requirements (sub-section 6.4.3). Further, for additional clarity, we suggest updating the legend in all data workbooks (Data category 02 to Data category 10) to clearly state that 'white' cells do not require data entries. Alternatively, we suggest shading any tabulated cells that do not require data entries a different color and including a reference in the Legend to note these cells do not require inputs.

1.3 Cost allocation

Section 1.3 Cost allocation requires reporting of costs allocated to the electricity distributor that are directly attributable, and not directly attributable. The 'Note' at Section 1.3 Cost allocation states, 'See sections 4.5 and 4.6 of the Draft Order'. In reviewing the Draft Order, the electricity distributor is required to report revenue and expenditure that has been reported on a causal allocation basis

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or non-causal allocation basis. Following a request for the term non-causal allocation to be defined, the AER provided this additional guidance in the Draft RIO, *non-causal allocator: an allocator that does not have a material influence on the information being reported.*

We are seeking confirmation that our understanding of these requirements is accurate, in that Section 1.3 Cost Allocation is reporting directly attributed and causally allocated costs, and Section 4.5 and 4.5 reports causally allocated costs only where drivers a) materially influence the information being reported (causal allocation) and b) do not have a material influence on the information being reported (non-causal allocation)? The confusion lies with the term 'non-causal allocation' as we usually refer to a cost that isn't causally allocated is directly attributed.

3.4 Capacity

Clarification is required for the units of measure in section 3.4, Circuit capacity of Appendix A: data workbooks general instructions which states the units are MVA. However, the definition for Circuit capacity in workbook - data category 03 Network Metrics (row 65) states maximum current. Rows 69 and 70 are consistent with section 3.4, however, this definition is inconsistent with all other references.

4.3 STPIS

For avoidance of doubt regarding the correct customer definitions to be used for Service Target Performance Incentive Scheme (STPIS) reporting, the deleted instruction at sub-section 4.3.1 (refer below) should be reinstated.

Customers (STPIS) by feeder -

The electricity distributor must report Distribution customers for STPIS purposes, the definition of Distribution customer is defined in the AER's Distribution Reliability Measures Guideline and reliability exclusions defined in the AER's Distribution Service Target Performance Incentive Scheme (STPIS).

The reinstatement of this instruction will also assist in avoiding complications or requests for additional clarity when reported information is subjected to external audit.

5.1 Interruptions to Supply

Ergon Energy and Energex request the instruction at sub-section 5.1.4 be updated to include the wording underlined as follows:

"For the purposes of calculating reliability, as defined in the AER's Distribution Reliability Measures Guideline, an interruption is..."

5.5.2 Service Outcomes: Reliability

We suggest the following instruction to be inserted into this section:

"The electricity distributor must report sustained unplanned reliability data in accordance with the definitions in the AER's Distribution Service Target Performance Incentive Scheme (STPIS) that applies to the electricity distributor in the reporting year."

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We acknowledge the ‘Draft Annual Information Orders Explanatory Statement, December 2023’ document states that data requirements are now limited to sustained interruptions, rather than all interruptions³. However, section 3.1.2 of the Draft Order requires electricity distributors to prepare information in accordance with instructions in each data workbook and ‘Appendix A data workbook Instructions’. The absence of the above recommended instruction in this ‘Appendix A’ means that the information within the Explanatory Statement is inconsistent with the instructions in Appendix A which could result in confusion or incorrect reporting of this information.

4.2 DATA WORKBOOKS

4.2.1 Data Workbook 04 – Customer Numbers

Worksheet: Definitions

Feeder classification

We recommend the definition for ‘Urban’ feeders be updated to align with STPIS definitions. That is, we recommend the use of the following, STPIS, definition:

‘a feeder, which is not a CBD feeder, has a 3-year average maximum demand over the 3-year average feeder route length greater than 0.3 MVA/km’.

This approach is consistent with the manner in which other feeder classifications (CBD, Short Rural and Long Rural) are defined.

Worksheet: STPIS

Customers (STPIS) by feeder

We suggest the formatting in the data workbook is amended as follows:

Data Column	Recommended Format
Feeder ID	General
Feeder Service Area Description	General
Feeder Classification	General
as at 1 July (start of year)	dd/mm/yyyy
as at 30 June (end of year)	dd/mm/yyyy

³ Attachment A – Information updates, page 24

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4.2.2 Data Workbook 05 - Service Performance

Worksheet: Interruptions to supply

Ergon Energy and Energex request an update to the following feeder classification definitions in this data workbook to align with STPIS:

- **Urban:** a feeder, which is not a CBD feeder, has a 3-year average maximum demand over the 3-year average feeder route length greater than 0.3 MVA/km.
- **Long Rural:** a feeder which is not a CBD feeder, urban feeder or short rural feeder.

We also recommend the following amendments:

- Insertion of an additional column for “**Customer Minutes**” to be populated by electricity distributors.
- Removal of Excel calculations from data column “**Total customer minutes off supply**”, as the excel Calculations results are inaccurate to 10 decimal places. Replace the excel calculations with provisions to electricity distributors to populate this column.

Inclusion of fields effect on SAIDI, SAIFI and MAIFI/MAIFle, as follows:

- If Planned Performance is to be calculated, then add:
 - a) “**Effect on SAIDI**”
 - b) “**Effect on SAIFI**”
 - c) Rename field “**Effect on Unplanned MAIFI**” to “**Effect on MAIFI / MAIFle**”
- If only Unplanned Performance is to be calculated, then add:
 - a) “**Effect on Unplanned SAIDI**”
 - b) “**Effect on Unplanned SAIFI**”
 - c) Rename field “**Effect on Unplanned MAIFI**” to “**Effect on Unplanned MAIFI / MAIFle**”
- Revision of the “Reason for Interruptions” selections to use the STPIS 3.3 exclusion numbering.
- Removal of data field “Reference for Supporting Evidence”.
- Revising the formatting in the data workbook as follows:

Data Column	Recommended Format
Incident reference number	General
Start date and time of interruption	dd/mm/yyyy hh:mm:ss
End date and time of interruption	dd/mm/yyyy hh:mm:ss
Total customer minutes off supply	number with decimals

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Data Column	Recommended Format
Feeder ID	General
Feeder service area description	General
Feeder classification	General
Reason for interruption	General
Detailed reason for interruption	General
Customers (STPIS) affected by interruption	number no decimals
Restoration stage	number no decimals
Effect on unplanned MAIFI	number with decimals
Major event day	General

For transparency, we request the defined terms for interruptions reporting be revised to include the underlined words indicated in the table below:

Term	Amended definition
Energy not supplied (planned)	Total energy not supplied (measured in MWh) minus energy not supplied - unplanned. This is to be exclusive of the effect of exclusions <u>section 3.3. Major event days are to be included.</u>
Energy not supplied (unplanned)	The estimate of energy not supplied (due to unplanned outage) to be based on average customer demand (multiplied by number of customers interrupted and the duration of the interruption). Average customer demand to be determined from (in order of preference): (a) average consumption of the customers interrupted based on their billing history; (b) feeder demand at the time of the interruption divided by the number of customers on the feeder; (c) average consumption of customers on the feeder based on their billing history; and (d) average feeder demand derived from feeder maximum demand and estimated load factor, divided by the number of customers on the feeder. This is to be exclusive of the effect of exclusions <u>section 3.3. Major event days are to be included</u>
Inadequately served customers	Has the meaning prescribed in the AER's Distribution Reliability Measures Guideline <u>(Sustained performance)</u>
Threshold SAIDI value for inadequately served customers	Threshold for inadequately served customers = greater than 4 times the Network average for <u>Sustained</u> unplanned SAIDI on a three-year rolling average basis compared with a network average customer.
Excluded events (distribution)	As defined in section 5.4 of the STPIS. As defined in section <u>3.3</u> of the STPIS.

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Worksheet: MAIFI and MAIFLe

We recommend removing this worksheet. If the above recommended changes to the 'Interruptions to Supply' worksheet are adopted, the AER will be able to calculate and report "MAIFI / MAIFLe" as required without this worksheet requirement.

Worksheet: Service Outcomes

We request the instruction in Cell H3: STPIS v1 is replaced with STPIS v2.0 as version 2 of the STPIS was published by the AER for electricity DNSPs in November 2018.

It is also recommended that instructions within this worksheet clearly indicate that reporting for 'Reliability' and 'Energy not supplied' is for '**SUSTAINED**' Interruptions, as it is unclear where this is otherwise documented.

Worksheet: Other service measures

Request for the instructions to clearly indicate reporting for 'Inadequately served customers (STPIS)', 'Top 5 feeders with most inadequately served customers (STPIS)', and 'Top 5 zone substations with most inadequately served customers' is for '**SUSTAINED**' Interruptions, as we are unable to find where this is documented.

4.2.3 Data Workbook 06 – Operating Expenditure

Worksheet: Standard Control Services (Maintenance)

Ergon Energy and Energex recommend the AER include auto calculated totals in the files for Routine and Non-Routine maintenance. Although these data entries are outside of audit scope it would assist with internal control checks for accuracy of data.

Worksheet: Standard Control Services and Alternative Control Services (Opex by purpose)

For network overheads data entries the 'light green' shading should be applied to allow for data entry in direct costs, in addition to indirect. Due to the definition of network overheads, some costs that Ergon Energy and Energex treat as direct costs under the AER approved CAM are required to be disclosed as network overheads.

5 COMMENTS ON APPENDIX B: GENERAL DEFINITIONS

Regulatory accounts

This term is defined as historical financial information pertaining to **prescribed transmission services**. However, the Draft Order is for **electricity distributors**. The term 'regulatory accounts' needs amending to replace prescribed transmission services with distribution services. If this term

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is not corrected, there are flow on impacts for other definitions. For example, the defined term 'actual information' relies upon this term 'regulatory accounts' thereby suggesting that only adjustments made to the accounting records to populate regulatory accounts for prescribed transmission services can be used in arriving at actual information.

Basis of preparation

Ergon Energy and Energex request the AER consider replacing the word 'data quality' with 'actual or estimated information' or 'reporting quality'. Data quality is the measurement of data accuracy within source systems which is outside of the scope of RIN reporting requirements and audit and assurance requirements. Data quality audits are typically performed in accordance with data quality standards for internal control purposes.

6 COMMENTS ON APPENDIX C: BASIS OF PREPARATION TEMPLATE

Data quality heading

As noted in section 5, Ergon Energy and Energex request the term, 'data quality' be amended to 'reporting quality'. Accordingly, we request the column heading in this section be amended to read "reporting quality" instead of 'data quality'.

Table format

Ergon Energy and Energex have some concerns regarding the proposed format of the Basis of Preparation (BoP). The current format (2cm column widths) will make it difficult to provide detailed information/responses, particularly if presented in word. In particular, the methodology section will be hard to condense and still meet the requirements of sub-section 5.5.1 and enable auditors, assurance practitioners and the AER to clearly understand how the electricity distributor has compiled the information required under the Order.

Could the AER please advise if it anticipates that BoP responses will be able to be provided in a more condensed manner to accommodate the narrower formatting approach, e.g. bullet point format.

7 COMMENTS ON EXPLANATORY STATEMENT ATTACHMENT A: INFORMATION UPDATES

Scope of the review

Given the AER has advised that electricity distributors are not required to use the data workbooks attached to the Order as the data collection or reporting tool⁴, there is a risk that instructions and/or

⁴ Network information requirements review, draft annual information orders, explanatory statement, December 2023, page 11.

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definitions contained within the data workbooks may be lost when the AER works with electricity distributors to develop data submission workbooks after the Orders are issued. To minimise this risk, Ergon Energy and Energex suggest that instructions and definitions contained within the workbooks are transferred to the Order.

Electricity distributors

Please review the reference to the **Power and Water Notice**. We consider this should be replaced with **Draft Annual Order – electricity distributors**, as the section refers to changes made to data requirements.

Service Performance

We note that the 'Service outcomes' section refers to economic benchmarking under **STPIS v1**. We suggest the AER update this reference to be **STPIS v 2.0**. The STPIS version 2.0 was published by the AER for Electricity distribution network service providers in November 2018.