

**AUSTRALIAN ENERGY REGULATOR**  
**MEETING RECORD (formally Note for File)**

DISCUSSION WITH:	NSPs, RSM Bird Cameron, Economic Insights
TRACKIT:	50557
DATE:	09/10/2013
OFFICER:	
VENUE:	ACCC Melbourne office / ACCC Sydney office by VCU

PURPOSE: Meeting to discuss proposed auditing requirements and data requirements for the draft economic benchmarking RIN.

ATTENDEES: In Melbourne – Bill Jackson (ElectraNet); David Dawson (Arup); Katie Yates (SP Ausnet); Mei Kwan See Toh (SP Ausnet); Mark de Villiers (CitiPower and Powercor Australia); Shodai Enters (Deloitte); Megan Willcox (CitiPower and Powercor Australia); Michel Seddon (Transend); Robert McMillan (Jemena); Peter Le (Jemena); Eugene Whittacker (Jemena); Jonathan Chan (Jemena); Leigh Mayne (Aurora); Chantal Hopwood (Aurora); Kim Rosinski (Aurora); Stephanie McDougall (United Energy); Richard Sibly (SA Power Networks); Keith Lockey (KPMG); Guy Mutasa (Energex); and Denis Lawrence (Economic Insights); Phil Ransom (RSM Bird Cameron); Jane Meade (RSM Bird Cameron)

In Sydney – Andrew Kingsmill (TransGrid); Blair Alexander (ActewAGL); Jim Bain (Energy Networks Association); Kim Casey (Ergon Energy); Patrick Duffy (Endeavour Energy); Scott Young (APA Group); Matt McQuarrie (Ausgrid); and Zubin Meher-Homji (Networks NSW)

AER: (Melbourne) Mark McLeish; Andrew Ley; Kevin Cheung; Sam Sutton; Jason King; Lawrence Irlam; Jess Manahan; (Sydney) Matt le Cornu.

***SUMMARY OF DISCUSSION:***

The meeting involved discussion of the following key issues relating to the draft economic benchmarking Regulatory Information Notice (RIN):

- audit requirements, directors / relevant officer of the company signoff (session one); and
- data estimation and worksheet specific inputs, in particular in relation to providing estimates for RAB data, asset lives and calculating line and cable MVA capacities (session two).

The presentation slides are available on the AER website at <http://www.aer.gov.au/node/22174>.

A summary of each key issue is discussed below.

## ***Session One – Auditing Requirements***

Representatives from chartered accountancy and advisory services firm RSM Bird Cameron discussed proposed Audit Requirements in relation to the draft RIN and the Economic Benchmarking Backcast Data Template.

AER staff explained that, in light of suggestions from NSPs in bilateral meetings, the due date for audited data would need to be brought forward from May 2014 to April 2014 so data could then be published with sufficient time for cross submissions. AER staff noted the proposed audit requirements are also relevant for the AER's 'category analysis' work stream.

## **Historical Data**

In relation to the auditing requirements for historical data:

- A concern was raised that it may be difficult to provide historical audited data for the past ten years when financial records are required to be retained for seven years for taxation purposes.
- It was suggested that NSPs' statutory accounts are prepared on a different basis and only NSPs' transaction data may be available. And, some data may not have been collected in the past by NSPs.
- It was suggested that the AER should reduce the number of years of historical data that was required to be audited in order to make it easier for NSPs to comply. A query was raised in relation to whether it was necessary to provide historical data beyond five years, given that the category analysis RINs are likely to only require five years of historical data. The AER suggested that the type of data collected in each RIN is different. For example, economic benchmarking requires only high-level data. The burden on NSPs should be different under the economic benchmarking RIN to the category analysis RIN.
- It was noted that the requirement to do a systems audit on historic data or where data is not available would have limited utility and would be excessively burdensome; it was suggested a systems audit for the current period would be more sensible.

## **Estimated Data and Physical Data**

- It was suggested that auditing assurance, including negative assurance, should not have to be provided for estimated data. One stakeholder asked why ASA3000 was chosen as an auditing standard, as opposed to ASA2400 and ASA2405.
- The concern was raised that the draft RIN is currently not clear on what constitutes actual data and what is estimated data. It was suggested that all financial data contains estimates for accruals, provisions etc.
- It was submitted that the RIN would be the guidance document for auditing purposes.
- It was explained that amendments will be made to the RIN to identify those categories that require estimations, and also that data which may require positive assurance and that which requires other forms of assurance. It was noted that forecasts that are made for price

review RINs were not audited and that this process may also be appropriate for forecasts within the draft RIN.

- An NSP suggested that no audit assurance should need to be provided in relation to physical data.

## **RAB Data**

- A stakeholder queried whether RAB values would be subject to positive assurance under ASA 805 or whether they would be estimated.
- It was suggested that estimated values for historical RAB Asset categories should not be subject to positive auditing assurance. This was because of the nature of the RAB and that it is not an 'economic concept', but is a 'regulatory concept'. Potential changes in each NSP's capitalisation policy over time may affect NSPs' ability to provide audit assurance in relation to raw capital expenditure. Further, it may not be possible to reconcile RAB data to statutory accounts.
- It was noted that Denis Lawrence from Economic Insights is presenting in the second part of this meeting, to discuss possible ways in which NSPs can provide RAB data.

## **OPEX and General Comments**

- There were mixed comments provided by participants in relation to whether NSPs will be able to provide the data in the draft RIN. Some suggested that it would be difficult to provide audit assurance in relation to opex data, physical assets data, equity data and other data generally. Others indicated that they have already commenced the data collection process and that they would be able to respond and provide data in relation to the draft RIN.
- One stakeholder submitted that a systems review for old data might not be overly difficult.
- It was submitted that different NSPs provided different services in the past, and had different capitalisation policies. The suggestion was that it may be difficult to compare NSPs over time and between NSPs. The AER noted that it is trying to collect data for a common set of services that have been provided by NSPs. It was also collecting all data where an NSP's cost allocation methodology (**CAM**) has changed over time. That is, movements in provisions in opex may not reconcile to regulatory accounts and this makes it difficult to provide auditing assurance for this data.
- It was submitted that NSPs would need to develop and provide a 'basis of preparation' document for auditing purposes and that this would involve substantial work and they would find it easier to provide this data going forward.
- During this session, one stakeholder submitted that they were reluctant to submit data in response to the draft RIN because they did not understand what the AER was going to do with the data.
- It was suggested that some of the data in the draft RIN had no purpose and did not need to be provided in the draft RIN. A participant was concerned about the associated cost of the audit and suggested they may not be able to provide audit assurance. The AER suggested that the requested data was based on advice from Economic Insights and the data would either be employed in a preferred model specification to undertake economic benchmarking, or it

would be used for sensitivity analysis or to be used to test the reliability of the data that has been provided.

- A concern was raised in relation to providing director's certification for estimates, and the costs associated with providing documentation supporting the estimates. A comment was that their executive is reluctant to sign where the information is misleading. It was explained that the AER is just seeking 'estimates' and for the NSP to provide its procedure and assumptions underlying the estimate.
- A participant asked what the AER would do if the auditor cannot sign-off on some data. They further asked about the consequences for an NSP of not complying, or responding in a way because the auditor has provided limited assurance or no assurance and whether the AER intends to undertake enforcement action where an NSP does not comply with the benchmarking RINs. The AER suggested that often what is required is a 'best estimate' and whether any enforcement action would be undertaken would be a last resort and depends on the nature of the response by NSPs.
- It was suggested that NSPs may have to rely on many auditor's reports where an auditor prepares a report in relation to financial data and engineers or other technical specialists a report in relation to other aspects of the data requested in the RIN. It was also noted that NSPs can currently use technical experts to sign off on non-financials for annual regulatory accounts and it was forwarded that these firms were better able to identify data inaccuracies.
- It was submitted that the wording of the declarations to be signed by a director or officer of the businesses should be amended. Specifically, it should not include provisions that require Officers to validate that the information can be 'relied on' or whether it is appropriate for the purpose of economic benchmarking given that they are not experts in the field. Rather, it is the AER that needs to decide if it can rely on the information.
- There was a preference to have the 'sign-off' provided by an officer of the business, as opposed to a director or CEO. This is because it is easier to achieve.
- It was suggested the statutory declaration should be signed following the audit rather than preceding it.

## **Cross-submissions**

- It was submitted that the purpose of cross-submissions was unclear. The AER explained the proposed purpose of the cross-submissions and that this included identifying errors in the data and seeking comment on the data provided by NSPs. Namely, once the audited data provided by the NSPs was provided, it would be made publicly available and that there would be an opportunity for NSPs to review and comment on the entire dataset. The proposed cross-submissions process is not intended to impose an obligation on NSPs, rather it is intended to provide an opportunity to comment publicly and the creation of the database with all NSPs data was an iterative process. There was a mixed response. Some NSPs suggested they were uninterested in other NSPs' data and would not have time or resources to review others' data. Other NSPs welcomed the proposed cross-submissions process and the opportunity to review the data set as a whole. NSPs also suggested that having an opportunity to comment on the draft benchmarking report (once the data has been collated and analysed) would be of greater value than an ability to comment of the raw data.

- There was a concern that the data would be made publicly available prior to it receiving audit signoff. It was suggested that it would be preferable for only audited data released publicly.
- Some NSPs suggested that auditors would be uncomfortable with the public release of their auditing reports.
- A concern was raised that once data is made publicly available, it was difficult to withdraw. It was suggested that if the data is amended or corrected at a later date, the earlier dataset, with its problems, would still have been in the public domain. The AER should ensure that only corrected data is publicly available.
- It was submitted that the wording in relation to confidential information should be consistent with the confidentiality guideline.
- Comments of support were made for the creation of a public register where NSPs submit queries to the AER in relation to completing the draft RIN. The query and the answer supplied by the AER would then be made publicly available. This would assist other NSPs who may have similar issues when completing the draft RIN.
- One question that was raised was whether the AER would actually change the NSPs' data before analysing it. A more general question was asked in relation to what the AER would do after the first tranche of data is provided to the AER and before the audited data was provided. It was explained that the initial data provided by the NSPs would be reviewed for consistency over time and between NSPs. Where there appeared to inconsistencies, the NSP would be consulted in relation to the construction and underlying assumptions of the data.
- An NSP suggested that once audited data is provided, there should not need to be any amendments. AER staff suggested that there may be differences in interpretations of some categories and so there may need to be clarification and possible amendments to the data. It was queried whether any revisions to the data would then have to be audited again.
- It was suggested that the term 'cross-submissions' is litigious and adversarial. It was proposed change the name of the process, for example 'Clarifying submissions'. Denis Lawrence clarified the reason for using the term 'cross-submissions' is because it involves making commenting on information others have provided to the AER rather than something the AER has published.
- An NSP suggested that the consolidated AER database would be a valuable resource for stakeholders going forward.

## ***Session Two – Economic Benchmarking Template Data Requirements***

The topics intended for discussion in the second session included: identifying network services; calculating RAB allocation; calculating average asset age; and calculating line and cable MVA capacities.

### **Identifying network services**

AER staff noted that changes would be made to the RIN templates in relation to:

- separating basic connection services
- clarifying that metering services should include meter reading.

In the context of the discussion, several queries and observations were raised.

- One query related to the treatment of a negotiated connection that ultimately included a basic connection service as part of the connection.
- One query was whether RAB data standard control services and alternate control services would be used in economic benchmarking. Further, if this was not the case, then is it not necessary to seek data in relation to these categories. It was noted that this data is needed to reconcile the data that will be used and to have confidence in the data that will be used for economic benchmarking purposes.
- One observation was in relation to the consistency of the 'connections' category. One stakeholder argued that this may be capitalized.
- It was suggested that it would be difficult to reconcile different capitalisation policies between NSPs and that this may affect data for shared networks.
- It was noted that these differences may not significantly impact economic benchmarking results. Further, there is a potential trade-off between seeking data that is easy to provide compared with data that is possibly more accurate.
- One NSP queried how metering revenues would be separated going back in time. It was suggested an apportionment based on cost and volumes would be appropriate.
- It was submitted that DUOS revenues were needed to reconcile to totals and TUOS schemes.

## Calculating RAB allocation

Denis Lawrence from Economic Insights discussed possible ways that NSPs can provide RAB data in the draft RINs. This included a preferred approach where the data was generally available and an alternative approach that included estimated replacement costs and the roll-back of the RAB.

NSPs presented a range of views to the AER in relation to their ability to provide data for the RAB spreadsheet. Some NSPs suggested they were seeking more guidance in relation to how to provide data for the RAB Assets worksheet. They requested the guidance in writing. Others indicated that they were comfortable with providing the data and that they did not require more guidance.

Specific comments included:

- There was a trade-off between simplicity of estimations and potential degree of disaggregation.
- It is not necessarily simple to provide estimated data and have it audited.
- It was submitted that it is unclear how to deal with equity raising costs. It was suggested that this category may not be material.
- One NSP submitted that they did not understand what the data would be used for and that this made it difficult to provide the data.

Denis Lawrence explained the intended use of the RAB data in relation to how it would be used to calculate weights for capital inputs in the preferred model specification. Denis noted that it was important to have at least one year of disaggregated data for an NSP so that estimates based on capex and other data can be used to calculate the entire time series for the NSP. It was important to have the data provided on a consistent basis.

- Some NSPs submitted that they required further guidance in relation to how to allocate the RAB because they were concerned that they did not have the expertise required. Other NSPs

argued that they were able to allocate the RAB according to the instructions in the proposed RIN and did not want additional or different allocation methods imposed on them. The concern was that each NSP is starting with different RAB categories and has different information available and so they should be able to use an allocation method that best suits the information available.

- One suggestion was for the AER to provide a more detailed allocation method that is followed by NSPs who are not able to develop their own allocation method.
- One NSP suggested that they were able to provide this data by allocating those depreciations and capex to each category and also use the asset registries.
- A concern was raised in relation for the ability of auditors to provide assurance in relation to this data and for directors to 'sign-off' on this data.

The AER said that this matter would be considered further with an intention to provide more guidance for NSPs to calculate the RAB.

### **Calculating average asset age**

- It was submitted that remaining asset life estimations could be derived by default from the other data in the RAB Assets spreadsheet, e.g. RAB/depreciation for each asset category. Economic Insights suggested that while this is one possible approach, it may be preferable for NSPs to provide engineering estimates of the overall life of the category of assets to reflect actual remaining lives. This is because the regulatory life of an asset may be affected by assumptions in relation to regulatory depreciation profiles that differ between NSPs and, at times, the opportunities that have arisen for some NSPs, at times, to accelerate depreciation profiles of some assets.
- Denis Lawrence noted that these issues are not expected to significantly affect the final estimated efficiency results however it is preferable to have data that is based on the actual remaining lives of assets.
- One NSP suggested that perhaps the attestation in the statutory declaration should be changed from 'most appropriate estimate' to 'reasonable estimate' given that it may be difficult to know if an estimate is the most appropriate estimate when there are several ways of deriving an estimate.

### **Calculating line and cable MVA capacities**

- An NSP suggested that relatively speaking, this data will be some of the easiest data to provide.
- An NSP suggested that it is difficult to provide estimated data because they still don't understand the purpose of some of the data and don't have the model that the AER will use and can't undertake calculations themselves before providing the data to the AER.
- Economic Insights reiterated that the proposed requirement is for a high level best informed estimated based on a business's expert engineering knowledge.