Attachment 6.10

Metering Services operating expenditure plan for 2014-19 period

May 2014

Contents

1 Other Expenditure: Metering Services High level review

Our forecast opex reflects the efficient costs that we would require to deliver the outcomes we are required to deliver by the National Electricity Rules. It also reasonably reflects the costs that a prudent operator would require and a realistic expectation of the demand forecast and cost inputs required to achieve these outcomes.

1.1 Outcomes last period

During the 2009-14 period, Ausgrid is projecting to incur $129.2 million of opex in relation to Metering Services as shown in the below table:

Metering services operating expenditure compared to allowances 2009-14

$M (nominal)	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Operating expenditure	22.213	25.140	26.295	27.223	28.332	129.203
Allowance	23.165	23.964	25.017	25.815	26.359	124.320
Variance to Allowance	0.952	(1.176)	(1.278)	(1.408)	(1.973)	(4.883)

1.1.1 Variance to Allowance

During the 2009-14 period operational expenditure for this category is estimated to exceed the allowance by $4.9M. The main driver for this variance was the increased rollout of interval meters throughout the network, which was not factored into the submission. Since the commencement of the current regulatory period (interval meters have grown from a volume of 260k NMI's to 458k NMI's in June 2013, an increase of 76%). This is opposed to a decrease in the basic meter population of 150k NMI's (from 1,308k NMI's to 1,157k NMI's). A subsequent increase in operating costs relating to interval meters is due to:

- Increased cost of meter reading associated with the probe reading of interval meters;
- Additional data validation process required for interval meters; and
- Maintenance and improvement work required on the probe reading of interval meters.

The additional cost relating to the rollout of the incremental interval meters during this period has been offset by a reduction in basic meter costs, and productivity improvements, including the further outsourcing of some meter reading functions.

1.1.2 Analysis of Expenditure

Operating expenditure by metering services group

$M (nominal)	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Metering Operations	3.226	4.388	4.843	3.748	3.898	**20.103**
Metering Technology	1.876	3.124	2.996	2.962	3.081	**14.039**
Meter Data Services	5.024	6.352	6.548	7.248	7.549	**32.721**
Meter Reading	11.100	10.429	10.830	11.628	12.098	**56.085**
Disconnection Services	0.987	0.847	1.077	1.639	1.705	**6.255**
Total Metering	**22.213**	**25.140**	**26.295**	**27.223**	**28.332**	**129.203**

Metering Operations and Metering Technology

The lower operating costs of $5.1m for Metering Operations and Metering Technology in 2009-10 (as compared to the later years)was as a result of a lack of resourcing towards meter maintenance, testing and evaluation, which could not be sustained in the interest of maintaining an accurate and working metering fleet. This was corrected in 2010-11 (this increase amounted to $2.41m) and from 2011-12 was reflective of appropriate spend for meter maintenance, testing and evaluation.

Meter Data Services

Meter Data Services costs have grown due to the disproportionate increase of interval meters in the network (interval meters have grown from a volume of 260k NMI's to 458k NMI's in June 2013, an increase of 76%).

Meter Reading

Meter Reading costs have grown due to the disproportionate increase of interval meters in the network (interval meters have grown from a volume of 260k NMI's to 458k NMI's in June 2013, an increase of 76%).

Disconnection Services

Disconnection Services costs have increased in the last two years due to the increase of requests for debt disconnections by external retailers. Requests for disconnections for debt have increased by 149% in the last two years (from 17,993 in 2010-11 to 44,836 in 2012-13). The cost of these disconnections has to some extent been minimised due to the sourcing approach adopted to facilitate this work.

Operating expenditure by service type

$M (Nominal)	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Standard Control	0.826	1.156	1.185	1.121	1.372	**5.659**
Alternate Control	17.521	19.697	20.718	21.461	22.315	**101.712**
Ancillary Services	3.867	4.287	4.391	4.641	4.645	**21.831**
Total Metering Services	**22.213**	**25.140**	**26.295**	**27.223**	**28.332**	**129.203**

1.2 Key circumstances for next period

During the 2014-19 period it is expected that activity will remain relatively stable compared to 2013-14, with organic growth of c. 1% to be absorbed through ongoing productivity improvement work.

1.3 Forecast next period

During the 2014-19 period, we forecast to spend $172.9m for this opex category.

$M (Real 2013-14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Operating expenditure	33.373	33.897	34.532	35.188	35.862	172.851

This operating expenditure of $172.851m includes a relevant proportion of Ausgrid's projected corporate overheads (CAM) of $24.1m. This was not previously recorded directly against Metering operational costs.

Real cost escalators have also been added to the projected costs (refer to attachment 6.02 - Forecast Opex Model Explanatory Statement for further details).

Our forecast operating expenditure of $172.851m is required to achieve the following objectives:

- AER Regulatory Framework for Metering – Adherence to the National Electricity Rules (NER) requires all connection points to be metered to a defined standard. This includes on time and accurate meter reading and meter data distribution.
- Ausgrid Business Requirements for Metering – The meters and metering equipment must fulfil multiple objectives, including (but not limited to):
    - Safety;
    - Accuracy; and
    - Compliant with relevant legislation
- Ausgrid Asset Maintenance – Ausgrid's maintenance plan is defined in the AEMO approved Metering Asset Management Plan (MAMP). A key driver to MAMP activities is the metering portfolio age (currently Ausgrid have over 1m meters over 25 years in age).

The objectives above will be achieved through the delivery of the following strategies which underpin the forecast provided above:

- Operating a balanced workforce of highly trained and skilled Ausgrid staff complimented by third party service providers;
- Continuing strong focus on operational market compliance; and
- Sound continuous improvement on costs and processes across all Metering businesses.

This forecast represents expenditure that is properly allocated to Type 5 and 6 alternate control, standard control and ancillary metering services in accordance with the principles and policies set out in Ausgrid's cost allocation method approved by the AER.

Total metering opex forecast for 2014-19 inclusive of CAM

$M (real 13-14 dollars)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Metering Operations	3.937	3.987	4.055	4.124	4.194	**20.297**
Metering Technology	3.114	3.156	3.212	3.270	3.328	**16.080**
Meter Data Services	7.648	7.779	7.961	8.147	8.337	**39.872**
Meter Reading	12.181	12.317	12.522	12.739	12.965	**62.724**
Disconnection Services	1.721	1.743	1.774	1.806	1.838	**8.882**
Underlying Metering Opex	**28.601**	**28.982**	**29.524**	**30.086**	**30.662**	**147.855**
Impact of Proposed CAM - Not previously recorded against Metering Costs	4.664	4.726	4.815	4.906	5.000	**24.111**
TSA Synergy Loss–CAM Impact	0.108	0.188	0.191	0.195	0.199	**0.881**
Total Metering Opex	**33.373**	**33.897**	**34.532**	**35.188**	**35.862**	**172.851**

The total metering operational expenditure for the 2014-19 period includes the proposed CAM of $24.1m and the loss of synergy resulting from Ausgrid's exit of the Transitional Services Agreement (TSA) relating to the sale of our retail business.

Proposed Split between Standard Control, Alternate Control and Ancillary Services Expenditure

$M (Real 2013-14)	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Alternate Control	22.539	22.911	23.339	23.782	24.237	116.808
Ancillary Services	7.090	7.181	7.305	7.433	7.566	36.575
Standard Control	3.744	3.805	3.888	3.973	4.060	19.470

Total Metering Services	**33.373**	**33.897**	**34.532**	**35.188**	**35.862**	**172.851**

Standard Control Services

Standard Control Services spend represents metering related costs in the delivery of Ausgrid's core network function. This includes the monitoring and maintenance of Bulk Supply Points (BSPs) within Ausgrid's area and forwarding of meter data per Ausgrid's network responsibilities as part of the National Electricity Market (NEM). Costs have been prepared by historically analysing all costs and determining at a work order level meter costs that are standard control related.

Alternate Control

Alternate Control relates to type 5 and 6 metering operational expenditure. Costs have been prepared by historically analysing all costs and determining at a work order level meter costs that are alternate control related.

Ancillary Services

Ancillary Services relates to metering costs that are driven by fee based services that have been defined by the Australian Energy Regulator (AER). Costs have been prepared by historically analysing all costs and determining at a work order level meter costs that are ancillary services related.

1.4 Meeting opex criteria

Our forecast operating expenditure of $172.9m is efficient and prudent in achieving the objectives of our Standard Control Services. This can be demonstrated by:

- The utilisation of the 2013-14 outcomes as the basis for our forecast which builds in efficiencies achieved against the prior period allowance (i.e. through absorption of additional volume)

System and process improvements initiated and embedded during the 2009-14 period include:

- Improved accuracy and timeliness of metering services reflected in annual AEMO benchmarking results by MDP;
- Implementation of Itron Enterprise Edition (IEE) system resulted improved efficient data delivery;
- Maximising efficient outsourcing arrangements (ie contractor services); and
- Automation of manual processes including field metering updates.