

29 December 2008

Mr James Barton
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Dear James

AMI REVIEW REVISED FRAMEWORK AND APPROACH

I refer to the Essential Service Commission's (**Commission**)¹ paper *Advanced Metering Infrastructure Review Consultation Paper: Revised Framework and Approach* (**Consultation Paper**). CitiPower and Powercor Australia set out in the attached response their specific comments on the Consultation Paper, and information templates, contemplated by the Consultation Paper.

In essence, CitiPower and Powercor Australia are concerned that the Consultation Paper, and information templates, are inconsistent with the *Advanced Metering Infrastructure Order in Council 2008* (**AMI OIC**). CitiPower and Powercor Australia consider that the Consultation Paper and information templates contemplate an assessment approach and the prescription of information requirements that are inconsistent with both:

- 1 the cost recovery framework established by the AMI OIC, with the result that they would impose unwarranted regulatory costs, an undue burden and unnecessary risk on distributors; and
- 2 the Commission's functions and powers under the AMI OIC, with the result that they give rise to a risk that the Commission may err in the discharge of those functions and powers.

CitiPower and Powercor Australia comment on each of these matters in turn below.

¹ Unless explicitly stated, or the context requires, otherwise, references to 'the Commission' in this response to the Consultation Paper are to be read as references to the Australian Energy Regulator from 1 January 2009.

Assessment approach and prescription of information requirements inconsistent with cost recovery framework under AMI OIC

CitiPower and Powercor Australia are concerned that the proposed framework and approach and information templates outlined in the Consultation Paper are inconsistent with the cost recovery model established by the AMI OIC. CitiPower and Powercor Australia observe, at the outset, that the AMI OIC establishes a pass through model for cost recovery. The AMI OIC gives effect to the *Key Principles Agreement* between the distributors and the Minister, in which this pass through model was explained as follows:

"The fundamental feature of this model is that metering charges are set to allow distribution businesses to recover their costs actually incurred in implementation of the Victorian AMI program subject to a review of that expenditure in defined circumstances and according to a determined scope."

As a result, the provisions of the AMI OIC confer on the Commission functions and powers consistent with such a pass through model - that is, the AMI OIC confers on the Commission a power to review forecast or actual expenditure 'in defined circumstances and according to a determined scope'.

By contrast, the framework and approach and information templates, contemplated by the Consultation Paper would appear to reflect the information required for the Commission to discharge review functions and powers consistent with an 'incentive based' model for cost recovery. The proposed assessment approach and detail required in the information templates are unnecessary for a 'pass through arrangement' and, accordingly, impose unwarranted regulatory costs and an undue burden on distributors. Further, the proposed arrangements will be costly to implement for the regulator, as well as for distributors.

A 'pass through arrangement' ensures distributors will only receive recompense for the actual costs they incur. While there could be a two year delay in charges reflecting actual costs, distributors will not receive any windfall as any over/under recovery will be corrected, including an adjustment for the time value of money. Thus the budget application is a place holder until actual costs become available.

While a forensic assessment of costs of the kind contemplated by the Consultation Paper is required under an 'incentive based' regulatory paradigm to ensure distributors do not benefit from any future underspend, distributors have no such incentive under a 'pass through arrangement'. Any over recovery will be set aside as deferred revenue and returned to customers with interest. Further, the volatility in revenue streams introduced by any over/under recovery is not desirable from a business cash flow perspective. Hence, CitiPower and Powercor Australia will prepare their respective budget applications and charges applications to ensure charges and costs are matched as closely as possible.

In addition, CitiPower and Powercor Australia observe that the information required by the proposed information templates represents a significant departure from the previous templates, particularly in relation to information technology (IT). Business reporting has been designed around previous versions of the templates which did not require the level of detail now being requested. CitiPower and Powercor Australia would question the need for such additional detail given what ultimately matters is actual costs presented in the Regulatory Accounts, not the budget application.

Furthermore, a number of these information requirements have not previously been advised to distributors. The requirements and associated probity audit criteria, in particular, have the potential to strand processes that were commenced in good faith, in some cases over two years ago. A more pragmatic approach is required that considers individual tenders on their merits rather than retrospectively imposing criteria that were not part of the Commission's original Framework and Approach Paper or part of the AMI OIC.

Assessment approach and prescription of information requirements inconsistent with Commission's functions and powers under AMI OIC

CitiPower and Powercor Australia are concerned that:

- the proposed review approach contemplated by the Consultation Paper is not consistent with the review functions and powers conferred on the Commission by the AMI OIC; and
- the information prescribed by the Consultation Paper and the information templates, extends well beyond that which is required or even relevant to the discharge of the Commission's review functions and powers.

This, in turn, gives rise to a risk that the Commission may err in the discharge of its functions and powers under the AMI OIC, both in the exercise of its power to review and approve applications and, more immediately, in the exercise of its power to prepare and publish a framework and approach paper, and information templates.

The power to publish a framework and approach paper, and information templates, conferred on the Commission by clause 5.4 of the AMI OIC is one to prescribe information that must be included in a budget application, charges application and/or fee application. The power is not unlimited. It is a power to prescribe only the information that the Commission requires to discharge its review functions and powers under the AMI OIC. The power to publish a framework and approach paper, and information templates, is not one to substitute or supplement the Commission's review functions and powers under the AMI OIC. Further, the power to publish a framework and approach paper, and information templates, does not extend to prescribing information that is not relevant to the discharge of the Commission's functions and powers under the AMI OIC.

The most salient example of CitiPower and Powercor Australia's concern is provided by the information requirements in respect of competitive tender processes set out in the Consultation Paper. The Consultation Paper lists the information requirements the Commission considers of relevance to, and sets out the Commission's approach to assessing, whether a contract is let in accordance with a competitive tender process. However, the information requirements and approach there outlined diverge from the AMI OIC.

The AMI OIC deems expenditure that is a contract cost to be prudent and requires that it be approved unless the Commission establishes that the contract was not let in accordance with a competitive tender process. The Commission may not reject contract costs for any reason other than that the Commission has positively established that the contract was not let in accordance with a competitive tender process.

The AMI OIC is highly prescriptive as to the matters that may be considered by the Commission in assessing whether a contract is let in accordance with a competitive tender process. In establishing that a contract was not let in accordance with a competitive tender process, the Commission may not permissibly have regard to any matter other than the tender process, whether that process was complied with and whether the Commission has positively established that the request for tender unreasonably imposed conditions or requirements that prevented or discouraged the submission of any tender that was consistent with the selection criteria. In particular, neither the outcomes of the tender process nor the existence or otherwise of cost benefits associated with the competitive tender process are permissible relevant considerations.

It follows that a significant portion of the Commission's assessment approach, as well as the information requirements prescribed by the Commission, in respect of whether a contract is let in accordance with a competitive tender process are inconsistent with the Commission's review powers. Put simply, the Consultation Paper contemplates an assessment approach which, if implemented by the Commission, is likely to lead the Commission into error and a prescription of information that is beyond power.

CitiPower and Powercor Australia urge the Commission to have regard to the nature of the review function the Commission is charged by the AMI OIC with performing and the associated limits on its power to publish a framework and approach paper, and information templates, in finalising those documents.

The businesses would welcome the opportunity to discuss with you further any questions or concerns arising out of CitiPower and Powercor Australia's response to the Consultation Paper.

Yours sincerely

[signed]

Brent Cleeve
MANAGER PRICE REVIEW

CitiPower & Powercor Australia Response to the Consultation Paper

Specific Comments on Framework and Approach

Is the expenditure within scope?

Page 13 of the Consultation Paper states that, for the Commission to review whether expenditure is within scope for the purposes of charges revision applications (other than that for 2011 charges), 'it will be necessary for the Commission to receive information which relates the expenditure items to the scope - i.e. a list of expenditure against each item of scope'. The Commission then asserts that clause 5B.1 of the AMI OIC requires this information to be provided in a budget application and, accordingly, by inference it should also be required for an initial charges application or charges revision application.

While clause 5B.1(d) requires a budget application to relate the expenditure therein to the Scope, that provision does not establish any requirement to do this by listing expenditure against each individual Scope item as now contemplated by the Commission. Further, CitiPower and Powercor Australia considers that requiring that information on the relationship between expenditure and the Scope be provided in this form will be unnecessarily onerous, having regard to the existing reporting arrangements for the AMI Project established by reference to the Commission's previous information templates prescribed in 2007. Neither CitiPower or Powercor Australia report internally against individual Scope items. The AMI Project has been operating for 2 years and, hence, already has established reporting arrangements. These reporting requirements reflect the Commission's previous set of templates issued in 2007. Therefore, while budget applications, initial charges application and charges revision applications should explain how activities being undertaken by each distributor are related to the Scope applicable to that distributor, the Commission should not require that information to be provided in the form of a list of expenditure against each Scope item.

As discussed in greater detail below, CitiPower and Powercor Australia are also concerned that the information templates proposed by the Commission are not consistent with the Scope applicable to CitiPower and Powercor Australia. This may be explicable by the fact that, in stating in the Consultation Paper (at 13) that '*[t]he scope of the AMI rollout is set out in Schedule 2 of the Order*', the Commission overlooks the fact that the Scope for a distributor may be either set out in Schedule 2 or published in the Victoria Government Gazette pursuant to clause 14B of the AMI OIC. The Scopes for CitiPower and Powercor Australia, in particular, are not set out in Schedule 2 to the AMI OIC.

Benchmarking

On page 14 and again on page 20, the Consultation Paper refers to the use of benchmarking in assessing whether expenditure is 'within Scope' and whether a tender process is a 'competitive tender process' in the review of budget applications, initial charges applications and charges revision applications. In respect of the Commission's assessment of whether expenditure is 'within Scope', the Commission states (at 14) that:

'One of the ways in which the Commission may conduct an initial review of whether expenditure is within scope (particularly in respect of budget applications) is to compare expenditure on a category-by-category basis across the distributors. Where expenditure in one area for a particular distributor is significantly different from the other distributors the Commission will seek information from that distributor in order that it can further investigate whether expenditure is within scope'.

Benchmarking, in the context of the Commission's assessment of whether expenditure is 'within Scope', is inappropriate because:

- the distributors have individualised Scopes, with the result that any differences in distributors' expenditure on a category-by-category basis is more likely to be explicable by differences in their respective Scopes than by the incurring of out of Scope expenditure by one of those distributors;
- differences in distributors' expenditure on a category-by-category basis may be explicable for any one or more of the following reasons, rather than by the incurring of out of Scope expenditure by one of those distributors:
 - not all distributors have adopted the same technology. Different technologies involve different cost trade offs in terms of meter costs, telecommunications equipment, IT, backhaul costs etc;
 - distributors do not operate from identical IT platforms. The systems adopted by each distributor will vary in terms of where they are at in their lifecycle, their functionality, their adaptability to AMI and on-going costs in terms of licensing and maintenance;
 - AMI will involve risk trade offs between the distributor and the vendor. Risk preferences will vary across distributors and vendors and these will be reflected in the final terms and conditions agreed between the parties;
 - the funding requirements for AMI will depend on each distributor's shareholders and their current and future funding requirements. The need for debt or equity injections, and the value of those injections will be a distributor specific matter;
 - each distributor (including CitiPower and Powercor Australia) employ different capitalisation policies; and
 - each distributor has different ways of categorising costs.
- a comparison of expenditure on a category-by-category basis across the distributors in assessing whether a particular distributor's expenditure is 'within Scope' is therefore likely to be unhelpful; and
- as a result, a real question arises as to whether a comparison by the Commission of distributors' expenditure on a category-by-category basis:
 - is a permissible relevant consideration in; and/or
 - is beyond the power conferred on the Commission in respect of, assessing whether a particular distributor's expenditure is 'within Scope'.

In respect of the Commission's assessment of whether a tender process is a 'competitive tender process', the Commission states (at 20) that:

'One of the matters the Commission will examine is how the costs incurred under the winning contract compare with the cost of similar arrangements elsewhere (i.e. through benchmarking). Where the contract costs are not inconsistent with those benchmarks the Commission will be able to have more confidence that the tender process was competitive'.

It is for this reason that the Commission requires (at 21) distributors to provide with their applications '*details of how the contract price compares with industry benchmarks or published list prices, including how the industry benchmarks have been calculated*'.

Any industry benchmarking of tender outcomes of the kind proposed by the Commission would not be a permissible relevant consideration in assessing whether a tender process is a 'competitive tender process'. Tender outcomes, including the benchmarking of those tender outcomes against industry benchmarks, cannot be considered by the Commission in either determining whether a tender process is a 'competitive tender process' or otherwise considering contract costs because:

- under the AMI OIC, the Commission may not reject contract costs for any reason other than that the Commission has positively established that the contract was not let in accordance with a competitive tender process (clauses 5C.3(a) & 5I.7(a)); and
- the AMI OIC exhaustively prescribes the matters to which the Commission may permissibly have regard in assessing whether a tender process constitutes 'competitive tender process', in setting out the following mandatory considerations (in clauses 5C.10 & 5I.9):
 - the tender process for that contract;
 - whether there has been compliance with that tender process; and
 - where the Commission positively establishes that the request for tender unreasonably imposed conditions or requirements that prevented or discouraged the submission of any tender that was consistent with the selection criteria, that fact.

It follows that the Commission's power to publish a framework and approach paper, and information templates, does not extend to requiring distributors to provide information of the kind proposed. This is because the Commission's power to publish a framework and approach paper, and information templates, is a power to prescribe only that information required by the Commission to discharge its review functions and powers under the AMI OIC. The Commission's power to publish a framework and approach paper, and information templates, does not extend to requiring distributors to provide information to which the Commission cannot permissibly have regard in discharging those functions and powers.

Audit certification

Page 15 of the Consultation Paper refers to the requirement for an Audit Report certifying that expenditure incurred is within Scope, and has been incurred in the amount claimed, to accompany certain distributor applications under the AMI OIC. In so doing, the Commission states that '*the audit certification which is required to be*

included with the charges revision application for 2011 charges ... will need to provide certification on incurred expenditure from 2006 to 2009’.

CitiPower and Powercor Australia wish to emphasise to the Commission that, contrary to the inference in its statement in the Consultation Paper referred to above, the provision for distributors to recover expenditure incurred in the years 2006 to 2008 of the kind described in clause 5D.4 through the inclusion of that expenditure in the building blocks for the year commencing 1 January 2009 in determining 2010-11 initial charges and 2010-11 revised charges is not qualified by reference to any audit certification requirement or any requirement that that expenditure be ‘within Scope’ (see clauses 5B.2, 5D.4, 5I.2(b)). Nonetheless, CitiPower and Powercor Australia have no objections to providing to the Commission, with their 2010-11 initial charges application, an audit certification that expenditure incurred in the years 2006 to 2008 of the kind described in clause 5D.4 of the AMI OIC was incurred in the amount claimed.

In discussing audit certification, the Commission recognises that the AMI OIC does not require the audit appointment process for the audit certifications prescribed by the AMI OIC in respect of budget applications and charges revision applications for 2011 to be complied with in respect of the audit certifications that are to accompany charges revision applications for years other than 2011. Nonetheless, the Commission concludes that *‘it is desirable that the audit appointment process for charges revision applications in other years comply with the same requirements’.*

Competitive tender processes

In the Consultation Paper, the Commission contemplates an approach to, and requires the provision of information by distributors in respect of, the Commission’s assessment of whether contracts were let in accordance with a competitive tender process that is far more prescriptive and onerous than the assessment of tender processes contemplated by the AMI OIC. In particular, the Commission seeks information, including on matters such as contract outcomes and industry benchmarking, that the AMI OIC does not contemplate. Further the Consultation Paper proposes that the Commission may conclude that a tender process, and the associated contract cost, is not reflective of a competitive tender process for reasons other than those outlined by the AMI OIC.

CitiPower and Powercor Australia have significant concerns about the Commission’s proposed approach and information requirements in respect of this assessment because their resultant cost recovery risk is materially increased relative to that evident on the face of the AMI OIC. As discussed in the cover letter to this Response, the AMI OIC establishes a pass through model for cost recovery. The *Key Principles Agreement* between the distributors and Minister, on which the AMI OIC is based, states that:

“The fundamental feature of this model is that metering charges are set to allow distribution businesses to recover their costs actually incurred in implementation of the Victorian AMI program subject to a review of that expenditure in defined circumstances and according to a determined scope.”

The contracting criteria set up by the Commission does not give distributors confidence that they will recover costs actually incurred consistent with the ‘pass through’ model established by the AMI OIC.

The criteria established by the Commission have been developed two years into the AMI project. Request for proposal (**RFP**) processes and negotiations with vendors are in many cases well advanced. For example, the RFP tender process for technology for CitiPower and Powercor Australia concluded 12 months ago. To introduce the Commission's criteria at this relatively late stage in the AMI procurement process and require distributors to retrospectively apply it may raise doubts about the recovery of costs incurred pursuant to tender processes undertaken in good faith over the past 2 years.

CitiPower and Powercor Australia are also concerned that a number of the information requirements and elements of the Commission's approach to the assessment of contracts are not necessary or appropriate and, accordingly, are likely to impose unjustifiable compliance costs on distributors. In particular, the following information requirements set out in section 2.5.2 of the Consultation Paper are not necessary or appropriate:

- a requirement for a business case demonstrating why contractual arrangements are likely to lead to better outcomes than internal provision of services; and
- where distributors seek to demonstrate synergies from undertaking joint tenders, a demonstration of the benefits of this relative to the standalone costs to each distributor determined by market testing standalone, individual distributor projects.

CitiPower and Powercor Australia are distribution businesses. They do not have a mandate or the relevant expertise to be involved in the manufacture of meters, development of telecommunication technologies or provision of backhaul telecommunications services. Further, the businesses have large on-going capital programmes associated with each distribution network. They do not have the necessary field resources to dedicate to the roll out of over 1.2 million meters. Requiring a business case demonstrating that contractual arrangements are likely to lead to better outcomes than the internal provision of services that a distributor has no mandate, expertise or resources to provide serves no purpose, is unnecessary, inappropriate and will impose unjustifiable costs on distributors.

Similarly, as has been highlighted to the Commission previously, the CitiPower and Powercor Australia AMI programme is a joint project. Operating the programme as a joint project enables each business to leverage economies of scale and scope that it would not otherwise have been able to access on a standalone basis. Further, the businesses operate from joint operational and IT platforms. As such, separating the AMI programme would have caused CitiPower and Powercor Australia to incur enormous costs on each business, which are clearly not in the long term interests of customers. As such, the market testing of any aspect of the CitiPower and Powercor Australia AMI programme on a stand alone basis is unnecessary, inappropriate and will impose unjustifiable costs on CitiPower and Powercor Australia.

The Consultation Paper also requires that distributors provide, as part of their budget application and, on request, to support a charges revision application, a probity auditor's report by a suitably qualified, independent probity expert, who was not involved in designing, validating or operating the distributor's tender or probity processes considering the matters prescribed by the Commission in section 2.5.2 of the Consultation Paper. An obligation of this kind was not required previously by the Commission and is not required under the AMI OIC. While CitiPower and Powercor

Australia have voluntarily undertaken such an exercise, the scope of the resultant reports does not match that set out in section 2.5.2 of the Consultation Paper. As a consequence, CitiPower and Powercor Australia would be required to re-engage its probity auditor to align the reports previously prepared with the criteria outlined in the Consultation Paper at considerable cost if this obligation is retained.

Finally, the Commission creates uncertainty by stating (at 21) that it may not honour the outcomes of a competitive tender process if, in the Commission's opinion, the final contract does not reflect the tender outcomes.

The commercial reality is that it is inevitable that the final terms and conditions of any contractual agreement will differ from the outcomes of an RFP. A contract negotiation by definition involves trading off a variety of risks. The final allocation of those risks will depend on the risk appetite of each of the counter parties and to a lesser degree, the market power of each party to the negotiation.

The Commission suggests distributors manage any potential stranding of the contract by providing, amongst other things, details of how the contract price compares with industry benchmarks or published list prices. This overlooks the fact that the scheme of the AMI OIC is that if an RFP process is a 'competitive tender process', within the meaning given to that term by the AMI OIC, this is sufficient testing of market prices to demonstrate the prudence of those prices. It should not be necessary for distributors to conduct further benchmarking studies.

In addition to the practical concerns that CitiPower and Powercor Australia have with the Commission's proposed approach to, and information requirements in respect of, assessing whether contracts are let in accordance with a competitive tender process that are outlined above, CitiPower and Powercor Australia also consider that a number of elements of that approach and those information requirements would involve an error of law by the Commission.

The AMI OIC is highly prescriptive as to the matters that may be considered by the Commission in assessing whether a contract is let in accordance with a competitive tender process. The AMI OIC deems expenditure that is a contract cost to be prudent and requires that it be approved unless the Commission establishes that the contract was not let in accordance with a competitive tender process (clauses 5C.3(a) & 5I.7(a)). The Commission may not reject contract costs for any reason other than that the Commission has positively established that the contract was not let in accordance with a competitive tender process.

In making a determination whether a contract was let in accordance with a competitive tender process, the Commission 'must have regard to', and by inference may not have regard to anything but:

- the tender process for that contract;
- whether there has been compliance with that process; and
- where the Commission establishes that the request for tender unreasonably imposed conditions or requirements that prevented or discouraged the submission of any tender that was consistent with the selection criteria, that fact (clauses 5C.10 & 5I.9).

In establishing that a contract was not let in accordance with a competitive tender process, the Commission may not have regard to any matter other than the tender

process, whether that process was complied with and whether the Commission has positively established that the request for tender unreasonably imposed conditions or requirements that prevented or discouraged the submission of any tender that was consistent with the selection criteria. The outcomes of the tender process are not a relevant consideration nor is the existence or otherwise of cost benefits associated with the competitive tender process. In particular, the AMI OIC does not permit an inference to be drawn from the outcomes of the tender process in respect of the competitiveness of the tender process, in the manner contemplated by the Commission (in section 2.5.1 of the Consultation Paper, at 17).

More specifically, the following matters to which the Commission proposes to have regard in assessing whether a tender process is competitive, and in respect of which it requires information be provided by distributors, are not relevant considerations:

- whether there is a clear business case demonstrating why contractual arrangements are likely to lead to better outcomes than internal provision of services (Consultation Paper, at 19);
- the distributor's rationale for conducting the tender process, e.g. that contract costs have a different regulatory approval threshold under the AMI OIC or that it is likely that a related party will win the contract (Consultation Paper, at 19);
- whether the tender process is consistent with the distributor's overall procurement program and risk management strategy (Consultation Paper, at 19);
- where a 'multi-vendor' approach to procurement has been selected, whether this approach has clear benefits compared to a single-vendor approach (Consultation Paper, at 19);
- where distributors undertake joint tenders, the stand-alone costs relating to each distributor demonstrated by market testing stand-alone, individual distributor projects (Consultation Paper, at 19);
- where competing technologies are available for a certain application (e.g. metering solutions for suburban environments), whether the distributor has considered seeking bids for each of these competing technologies from multiple vendors (Consultation Paper, at 19);
- if the contract is with a related party, the circumstances surrounding entry into the contract, e.g. whether the contract was entered into on a stand alone basis or whether it was entered into as part of a broader set of commercial arrangements or part of a broader transaction (Consultation Paper, at 19)
- the number of respondents to the tender (Consultation Paper, at 20);
- the identity of the successful tenderer (Consultation Paper, at 20);
- the final contractual agreement with the successful tenderer (Consultation Paper, at 20);
- how the costs incurred under the winning contract compare with the cost of similar arrangements elsewhere (i.e. through benchmarking) (Consultation Paper, at 20);

- details of how the contract price compares with industry benchmarks or published list prices, including how the benchmarks have been calculated (Consultation Paper, at 21);
- whether the tender outcome results in a substantial amount of risk being allocated to the distributor (and by implication its customers) (Consultation Paper, at 21);
- the manner in which legal, technical, financial and other risks are shared between the distributor and the successful contractor (Consultation Paper, at 21); and
- the incentive arrangements, if any, under the contract (Consultation Paper, at 21).

It follows that the Commission's power to publish a framework and approach paper, and information templates, does not empower the Commission to require information of the kind detailed above be provided by distributors.

Weighted average cost of capital

Page 29 the Consultation Paper refers to a requirement for distributors to make assumptions with respect to WACC in the budget application. CitiPower and Powercor Australia do not believe the budget application requires any such assumptions as clause 5B.1 requires only capital and operating expenditure, not a revenue requirement to be provided in the budget application. WACC is therefore not relevant to the initial budget application.

Efficiency carry over 2006-08

Table 3.3 of the Consultation Paper refers to maintenance (IT) in the meter data services category for the efficiency calculation. However, Clause 5D.4(c)(i) of the AMI OIC only refers to pages 543, 544 and 545 of the *2006-10 Electricity Distribution Price Review (EDPR) Final Decision* for meter data services. Maintenance (IT) is described on page 540 of the EDPR Final Decision. The rationale for leaving this out of the efficiency calculation was that the maintenance (IT) cost assumed for interval meter roll out did not occur. Therefore the EDPR cost benchmark is not relevant.

In section 3.3.2, the Consultation Paper states that efficiency gains or losses are retained for 5 years. This is incorrect. Efficiency gains or losses are retained for 6 years under the EDPR Final Decision (i.e. they are retained in the year the gain/loss was made and then for the next 5 years). So, for example, in respect of a gain/loss made in 2008, the gain/loss is retained in 2008 and applied to the revenue requirement in each year from 2009 to 2013.

Specific Comments on Information Templates

Information required for charges application but not the budget application

Clause 5B.1 of the AMI OIC states that:

“A budget application must:

- *contain expenditure for Regulated Services for each year of the initial AMI budget period or the subsequent AMI budget period (as the case may be);*
- *set out the Total Opex and Capex for each year of the initial AMI budget period or the subsequent AMI budget period (as the case may be);*

- *distinguish between:*
 - *capital expenditure; and*
 - *maintenance and operating expenditure; and*
- *relate the expenditure to scope.”*

The Commission’s proposed information templates include the following items which are not required under clause 5B.1 and that are only required for the initial charges application:

- the risk free rate and debt premium; and
- the price path and prices.

Clause 5B.2 of the amended OIC states that:

“Neither an initial AMI budget period budget application nor a revised initial AMI budget period budget application is to include any expenditure in relation to which the distributor will seek a determination under clause 5D.4.

Note: Clause 5D.4 provides for the making of a determination with respect to certain items of expenditure that have been incurred between 1 January 2006 and the Start Date.”

The Commission’s proposed information templates include the following items which relate to clause 5D.4 of the amended OIC and should therefore be excluded from the budget application requirements:

- the entire IMRO Data Inputs Template which only provides information on the 2006-08 period; and
- the AMI Pre Start Date Costs (2006-08 AMI costs) in the AMI Data Inputs Template.

The information templates should clearly state that this information is not required for budget applications.

Information templates unsuitable for CitiPower and Powercor Australia

The proposed information templates are not suitable for CitiPower and Powercor Australia. They:

- are inconsistent with CitiPower and Powercor Australia’s existing reporting arrangements which have been structured around the Commission’s previous templates; and
- exclude items that are part of CitiPower and Powercor Australia Scope under the AMI OIC including IT customer management functions and IT market interfaces.

The information templates will not achieve their intended purpose of assisting the Commission to assess whether expenditure is within Scope if the information template that is applicable to a distributor is inconsistent with the Scope requirements that apply to that distributor. In this regard, the information templates need to recognise that different distributors will have different Scope requirements under the AMI OIC. As noted above, CitiPower and Powercor Australia’s Scope is not set out in Schedule 2 of the AMI OIC and will instead be published in the Victorian Government Gazette pursuant to clause 14B of the AMI OIC.

It is noted that the templates closely resemble an earlier Scope submitted by another distributor. While presumably the Commission’s templates fit comfortably within

that distributor's reporting arrangements, CitiPower and Powercor Australia's are not in the same position. Imposing another distributor's reporting arrangements on CitiPower and Powercor Australia is not appropriate and further may potentially lead to biases in any comparison between the distributors.

The template information requested is also significantly more detailed (600 cost items) than the information requested under the original set of templates. This is inappropriate because:

- it is more critical to establish accurate forecasts of expenditure under an 'incentive based arrangement' because these forecasts establish customer charges, whereas under the 'pass through arrangement' actual expenditure establishes customer charges. Therefore, it would be expected that the Commission's templates be less detailed compared to the original templates. That was the assumption made by the distributors when negotiating submission dates with the Victorian Government;
- the distributors would be unlikely to be able to provide conforming budget applications by 27 February 2009, if the Commission included the proposed templates in its information requirements;
- even if the distributors were to provide the requested information, the Commission could request actual costs to be reported in the same categories. CitiPower and Powercor Australia's reporting systems are not configured to provide costs disaggregated in the detail requested in the templates. To configure the reporting systems to do so would mean changing business processes and systems at significant time and cost. It would also divert resources from the core AMI project;
- it goes well beyond the expenditure forecast items that the Australian Energy Regulator (**AER**) has typically requested from businesses for distribution or transmission price reviews;
- it does not recognise that distributors are likely to have different AMI solutions with a different logical build up of expenditure forecasts; and
- completing the templates would inevitably require cost allocations rendering the information less meaningful.

This level of detail also goes far beyond the level of information that is required by the AMI OIC. The Consultation Paper should request expenditure forecasts at a high level consistent with clause 5B.1 of the AMI OIC and it should be incumbent on the distributor to provide a breakdown of those costs to a level of detail that gives the Commission comfort that the costs forecasts are not imprudent and are within Scope.

Information templates exclude metering business as usual activities

The proposed information templates exclude metering business as usual activities such as meter reading.

It is not clear why the totals of meter volumes include AMI meter replaced with AMI meter volumes. It is assumed that cumulative meter volumes are required, in which case AMI for AMI replacements would already be embedded in the cumulative volumes. The cumulative number of AMI meters at year end equals the cumulative number of AMI meters at year start plus actual AMI meter installs for that year less AMI for AMI replacements for that year less meter abolishments for that year.