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6 October 2008

Mr Chris Pattas
General Manager
Network Regulation South Branch
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Email: aerinquiry@aer.gov.au

Dear Mr Pattas

RESPONSE ON ANNUAL INFORMATION REPORTING REQUIRMENTS ISSUES PAPER

Thank you for the opportunity to comment on the Australian Energy Regulator's (**AER**) *Annual Information Reporting Requirements Issues Paper*.

CitiPower and Powercor Australia (**the businesses**) provide the following comments:

- **It is unclear how the proposed information will be used by the AER in fulfilling its regulatory functions**

  The AER's proposed capital, operating and maintenance templates include more detail than the current Victorian reporting requirements. This is despite the Essential Services Commission of Victoria (**ESCV**) and its consultants appearing not to have used most of the information that is reported. For example, the businesses are not aware that the voltage level or position capital expenditure has been used by the ESCV for any regulatory purpose.

  Preparing the financial templates under the current Victorian reporting requirements is a resource-intensive process. For example, the businesses' accounting systems do not manage transactions by regulatory segment. Despite this, the ESCV has continued to collect this information and appears to have only utilised operating and maintenance expenditure and proceeds from the sale of assets from these templates.

The collection of information is not without cost and it is on this basis, that the businesses ask the AER to critically review its need for the information being sought and set out, as part of the Draft Decision, the purpose for which each piece of information is being used.

- **The accuracy of reported information is likely to be compromised by the level of detail required**

  The businesses are concerned that the AER may assume a false level of precision in the information reported. The proposed templates require costs be reported to a level of detail which would require a significant level of cost allocation of the businesses' source information. Cost allocations result in approximations only and different businesses are likely to use different cost drivers to allocate costs. This will limit the usefulness of cost comparisons at these detailed levels.

- **Annual reporting requirements will need to take into account metering services in Victoria.**

  In Victoria there is a *Cost Recovery Order in Council* for regulated metering services. This necessitates that regulated metering services be reported separately.

The businesses support the AER decision to discard the numerous asset tables that are currently required to be reported by the Victorian distributors. Constructing and auditing these tables is resource-intensive and yet the information serves no regulatory purpose.

Please find attached some specific comments on the proposed information requirements.

Should you have any further questions in relation to this submission, please do not hesitate to contact Mark de Villiers on (03) 9683 4907.

Yours sincerely

[signed]

Brent Cleeve
ACTING GENERAL MANAGER REGULATION

SPECIFIC COMMENTS

Notwithstanding the businesses' concerns about the proposed level of detail in annual information requirements, below are specific comments on the proposed information requirements.

Capital expenditure

- is reported capital expenditure intended to be net of customer contributions?
- where would environmental, safety and legal capital expenditure be included?
- the rural short and rural long definitions appear to be swapped around.

Operating expenditure

- the businesses are unclear on the distinction between routine and condition-based maintenance. It is more logical to separate maintenance between planned and unplanned maintenance; and
- the businesses do not understand the definition of 'network system operations'.

Material projects and programs

Some programs are conducted over multiple years and potentially over regulatory periods. The businesses are of the view that the threshold has been set too low for such programs.

Capital contributions

In some situations, an asset is constructed by the customer. Once the asset is completed, the customer requests a 'tie in' to the relevant network and the asset is gifted to the business. Whilst no capital expenditure has been incurred by the business, the statutory asset base will increase by the amount of the gifted asset and a corresponding entry raised to increase customer contributions revenue. This will result in a variance between the statutory and regulatory asset bases.

Proforma statements for financial information and disaggregation statements

- Statutory Accounts treat customer contributions as revenue. Therefore a new revenue item for customer contributions is required on the Income Statement;
- new cost item required for grid fees (transmission costs) on the Income Statement; and
- there are a number of items missing from the balance sheet, such as cash and other liabilities.