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7 October 2008

Mr Chris Pattas
General Manager
Network Regulation South Branch
Australian Energy Regulator
GPO Box 520
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Dear Mr Pattas

Electricity distribution network service providers' annual information reporting requirements - Issues Paper

Country Energy appreciates the opportunity to respond to the Australian Energy Regulator's (AER's) issues paper on matters relevant to annual information reporting requirements for distribution network service providers (DNSPs).

Country Energy's response concentrates on our overarching concerns with the principles and process used in the development of the issues paper, and presents general high level commentary on the attached templates.

Overview

Country Energy understands the need for the Australian Energy Regulator (AER) to collect the information it reasonably requires to carry out its regulatory functions of assessing DNSP performance and future regulatory proposals. However, Country Energy is of the view that the AER should further expand on the objective of the annual information reporting requirements, the purpose of the information and how it is intended to be used to meet the AER's objectives. This is needed so that DNSPs clearly understand the link between the information being requested and the specific regulatory function this information will be used for.

Country Energy is of the view that much of the information requested in the issues paper relates specifically to the five yearly determination process. This information will be provided as part of a DNSP's regulatory proposal under the National Electricity Rules (NER) and Country Energy is concerned that providing the information in the proposed format presented in the issues paper on an annual basis will result in significant duplication of effort on the part of both the DNSP providing the information and the AER in assessing and evaluating the information provided.

Based on the issues paper, it is not clear on the extent of annual compliance functions related to network determinations that the issues paper is trying to address. Under the National Electricity Rules (NER), one of the major annual compliance functions required is the annual pricing proposal that is submitted to the AER for approval against the pricing parameters in the network determination and NER. This aspect is not addressed by the issues paper, but many other issues unrelated to annual compliance requirements are covered.

Country Energy believes that further clarification is required to demonstrate that the annual compliance requirements under the National Electricity Law (NEL) and NER are being addressed by the information being requested in the issues paper.

Information Templates

The AER has recognised in the issues paper that DNSPs require a different reporting regime to transmission network service providers (TNSPs). TNSPs are also much more aligned in their network scope and characteristics than DNSPs.

Country Energy does not believe that the significant differences in operations between DNSPs have been adequately recognised in the proposed information templates. The AER may need to consider whether providing a single set of annual information reporting templates for all DNSPs is appropriate given the varied characteristics of each network.

As a point of reference, the transitional information templates developed for the NSW/ACT regulatory proposals recognised and addressed this issue.

The proposed templates in their current form do not reflect current internal or jurisdictional reporting requirements, and do not adequately reflect the extensive consultation process that took place between the AER and NSW/ACT DNSPs.

The result of that consultation was a reasonable compromise position that allowed for the establishment of the transitional information templates utilised by the AER for the purposes of assessing regulatory proposals for the 2009-2014 regulatory period.

Country Energy believes that if information templates were required annually by the AER at the level proposed in the issues paper, an appropriate starting point for their development would be the current transitional reporting templates used in the NSW/ACT regulatory proposals. As the proposed information templates do not directly align to those used for the NSW/ACT regulatory proposals, Country Energy is concerned with the proposed process for evaluating trends and compliance between the information templates and the determination.

Country Energy understands that in order to achieve nationally consistent reporting standards, there will be a need for some DNSPs to make changes to reporting systems and processes, but the proposed templates may require significant resources and time to align Country Energy's systems. Even if a decision on annual reporting requirements is finalised by February 2009, it may be difficult for DNSPs to have systems and processes in place to report for the 2010 financial year, given budget and information technology lead times.

In regard to the proposed information requirements for network planning and demand management, Country Energy currently reports the emerging major constraints in the distribution network and substation level planning information over 5 year periods through its annual *Electricity System Development Review* (ESDR). The ESDR is available to any party by an application through Country Energy's website. Country Energy believes that replicating this extensive document annually through information templates would be of little added benefit to stakeholders, and therefore suggests that the AER consider accepting *Electricity System Development Review* documents from DNSPs who produce such reports.

Back-Casting Templates

The AER itself states that back-casting is an imperfect mechanism for obtaining information that inevitably raises concerns over accuracy of information. Any back-casting that involves reporting of data in a different format to what has been previously reported, or currently captured, may result in arbitrary and meaningless allocations. Based on the information provided in the issues paper, the need to back-cast information in an ex-ante framework is not clear to Country Energy.

Compliance Costs

Country Energy has not conducted a detailed analysis of the costs associated with complying with the proposed annual reporting requirements, but it could be expected that significant expenditure and time would be needed to adjust Country Energy's financial reporting systems to align with the level of information required.

Country Energy is not opposed to making changes to its systems if the information is going to be useful and beneficial to stakeholders and the AER. However, Country Energy believes more work is required to demonstrate the purpose and intended use of the requested information before resources can be committed to system changes.

Assurance Requirements

The proposed audit assurance requirements will provide duplication of costs and assessment by repeating some of the audit steps and costs that are currently borne in the full annual statutory audit of the statutory accounts. The current audited statutory accounts are already published in the public domain and to re-audit these will result in significant duplication. Therefore, Country Energy would support limiting the audit and audit opinion to the agreed-upon procedures referred to in Appendix C, as this is consistent with the review currently undertaken as part of the annual IPART regulatory accounts process.

An agreed-upon procedures approach allows the AER to target specific areas for independent review in the context of compliance with the regulatory determination. The other two audit approaches suggested in section 5.2 of the issues paper imply greater audit effort, a wider audit scope, greater time and cost for no specific additional benefit to the AER or the companies being regulated.

Summary

Country Energy is aware that the issues paper is an initial step in the consultation process, and that substantial work remains before a complete regulatory information order can be finalised.

We would be pleased to work collaboratively with the AER in the development of a suitable suite of annual information requirements that provide useful information to stakeholders while adequately recognising DNSP differences and compliance costs.

Country Energy would be pleased to discuss this matter further. Should you require further information or clarification please feel free to contact Jason Cooke on 02 6338 3685 or myself on 02 6589 8419.

Yours sincerely

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