ETSA Utilities

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3 October 2008

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

Dear Mr Pattas

Issues Paper – Annual Information Reporting Requirements for Electricity Distribution Network Service Providers

This letter is in response to the above AER Issues Paper which considers a nationally consistent framework for annual reporting for distribution network service providers (DNSPs). ETSA Utilities understands that the release of the Issues Paper is part of a preliminary consultation process and that further consultation will occur on the development of the proposed reporting templates.

ETSA Utilities' submission is attached and is framed in regard to the regulatory reporting that we presently provide and the significant cost and transition issues necessary to comply with the proposed annual reporting requirements as referred to in the Issues Paper.

You will note that ETSA Utilities has significant concerns with respect to matters raised in the Issues Paper and consider that it would be of benefit if we could meet with the AER, as part of the consultative process, to alleviate some of the concerns that we have raised.

Please contact Patrick Makinson on (08) 8404 5865 or myself on (08) 8404 5694 should you wish to discuss any matters raised in this submission.

Yours sincerely

Eric Lindner
General Manager Regulation and Company Secretary

Attachment

Submission Prepared by ETSA Utilities in response to

AER Issues Paper – Annual Information Reporting Requirements for

Electricity Distribution Network Service Providers

OVERVIEW

ETSA Utilities recognises the importance of providing the AER with appropriate and detailed information to enable effective monitoring of the performance of distribution network service providers (DNSP's) as well as the need for consistent reporting across jurisdictions.

The reporting templates that currently apply in South Australia were developed having regard to the necessary information required by the jurisdictional regulator to enable it to perform its function and ETSA Utilities' needs for managing the regulatory business. The templates were developed by the jurisdictional regulator in consultation with the business having regard to the information required and the format in which the information could be provided.

The AER's templates, which appear to be modelled on one jurisdiction being Victoria, would substantially extend and modify the information required in a manner that is estimated would cost millions of dollars to implement.

Considerable effort is given to the five yearly reset review outside of the normal management, planning and operation of the distribution network. ETSA Utilities considers that the annual reporting should compliment the five-yearly review process, but should be a separate and less onerous requirement. These annual and five yearly reporting requirements should be developed separately but in a manner that is complementary having regard to the information requirements of the AER. This approach does not appear to have been adopted.

ETSA Utilities considers that the AER should prudently review the benefits of the detail and dimensions (ie slicing and dicing) required by the templates to ensure that they outweigh the considerable cost and effort that is to be incurred.

In short, the key issues from our review of the reporting templates include:

- The significant cost, expected to be in the millions, involving system changes and resource requirements to enable compliance with the proposed annual reporting templates;

- The difficulty in complying with the proposed annual reporting templates for the 2009/10 regulatory year. Due to the changes proposed we do not believe that it will be possible for implementation in the proposed timeframe due to resource availability, other system change commitments and work practices and training. Additionally we are concerned that there will be unnecessary duplication to comply with reporting requirements of the Essential Services Commission of South Australia (ESCoSA);

- The requirement to report operating expenditure categories against regulatory allowances and specific major projects and programs is not appropriate for annual reporting; and

- The Issues Paper is unclear on how the required information relates to the AER performing its various legislative functions and to consider whether this information should be provided annually or more appropriately as part of the five yearly review.

ETSA Utilities recommends that:

- A working group be established with representation from the AER, the Energy Networks Association and DNSPs to consider the information the AER require to meet their legislative requirements, whether this information should be provided annually or at the five yearly reset as well as the development of a uniform set of annual reporting templates to enable relevant and appropriate monitoring by the AER. ETSA Utilities will seek to be represented in that working group.

- The transition to the new annual reporting templates be timed to coincide with the start of the next regulatory reporting period. In ETSA Utilities' case this would entail reporting from the 2010/11 regulatory year and will ensure there is not duplicate reporting to the AER and the jurisdictional regulator.

The remainder of this paper considers specific issues from our review of the Issues Paper.

SPECIFIC ISSUES

In the context of this preliminary consultation process we have identified specific issues within the issues paper that we consider the AER should give appropriate consideration to as they further develop their reporting requirements. These specific issues are discussed below and are referenced to the section headings referred to in the Issues Paper.

2.2 Annual reporting templates

2.2.2 Capex

The proposed capex templates identify costs by:

- cost drivers (eg new customer connections, asset replacement etc); and
- asset types (eg lines and cables, substations etc).

Costs are further separated by location, voltage level and position.

This level of detail is significantly more than the reporting (and cost collection) currently reported to ESCoSA. Capital costs have been traditionally captured at a project or program level and reported at a driver level; our capex categories line up reasonably well with the high level categorisation proposed by the AER. Our asset register captures costs for an asset type. Whilst locations are generally recognised, they refer to the physical location of the asset, rather than categorised as proposed (ie CBD, urban, rural short, rural long). Voltage levels or position are not recognised from a cost perspective, but are physically captured in a geographic information system. Presently, it is not believed that the capture of such costs in this manner adds to the management of the distribution system.

Major system and process changes would be required to comply with the detail sought in the capex reporting template. Alternatively, an ‘allocation approach’ could be taken to split expenditure between the desired categories, for example, overhead and underground costs could be allocated on the basis of the percentage of network that is overhead or underground. Such an approach would however appear to be of limited use, as the data would be of lesser accuracy, and additional costs to gather and audit such data would still be material.

Major system and process changes will be required to be implemented to capture capital costs at the level proposed for reporting to the AER. This will incur considerable cost and additional resource requirements, and would not be ready to commence reporting for the 2009/10 regulatory year. The benefits in providing the detail requested should be reviewed in light of the additional costs to be incurred.

2.2.3 Opex

Similar to the capital expenditure requirements, ETSA Utilities does not presently capture costs at the detail proposed in the reporting templates. Maintenance costs are identified for routine (planned) and corrective / emergency (unplanned) activities but are not captured for condition based maintenance separately as they are included in planned activities. Separate network management information is used to identify condition based requirements. As for capex, costs for voltage levels, position and location are not separately identified with job/work orders established for distinct maintenance tasks.

The proposed reporting templates also require reporting individual operating expenditure categories against regulatory allowances. We believe that this would be unreasonably onerous and is inconsistent with the building block regulatory allowance process. We consider that an overall summary of the operation and maintenance of the distribution network against opex allowances is more appropriate.

Major system and process changes will be required to be implemented to capture opex costs at the level proposed for reporting to the AER. This will incur considerable cost and additional resource requirements, and would not be ready to commence reporting for the 2009/10 regulatory year. The benefits in providing the detail requested should be reviewed in light of the additional costs to be incurred. Further, the requirement to report against individual regulatory allowances is inconsistent with the building block process. We consider that an overall review of the operation and maintenance of the distribution network against opex allowances is more appropriate.

2.2.4 Material projects and programs

The proposed annual reporting templates require detailed reporting for major projects and programs, with a cumulative expenditure of greater than 2 per cent of the DNSP's anticipated revenue in the final year of the regulatory period. The materiality threshold for programs is related to total expenditure over the regulatory control period.

Again we consider that this is inconsistent with the regulatory allowance building block process. Projects of the magnitude proposed are likely to span more than one year and may span regulatory periods. Program expenditure will be measured as part of the 5 yearly review of regulatory proposals and does not seem to be appropriate for annual reporting. The value and relevance of such reporting is unclear.

The proposed annual reporting of major projects and programs is inconsistent with the regulatory allowance building block process and seems to be of limited value to the AER. This level of reporting appears to be more relevant to 5 yearly review of regulatory proposals.

2.4 Disaggregation statements

ETSA Utilities currently disaggregates expenditure between distribution services as proposed in the reporting templates. Costs and revenues are broken down between direct control, negotiated distribution services, non-regulated distribution services and *non-allocated* items. Whilst the issues paper includes non-allocated items in its text, we note that the reporting template does not provide for such. The income statement contains reporting to a retained profit/loss level (although the issues paper only refers to an earnings before interest and tax level), whilst the balance sheet and cash flow statements are equally detailed.

The allocation of organisation structural costs, such as interest, taxation, borrowings, equity etc across distribution services is totally subjective and provides little or no purpose. It will be extremely difficult for auditors to provide assurance on.

We note that the reporting templates for the disaggregation statements do not provide for the non-allocation of structural costs such as interest, taxation, borrowings, equity etc, although it is discussed in the issues paper. The allocation of such would be largely subjective and extremely difficult for auditors to provide assurance on. We recommend that a non-allocated cost column be included in the disaggregation statements.

2.5 Working papers

The AER proposes that working papers be provided to support the disaggregation statements and the statements relating to the direct control distribution services. We currently prepare working papers to support our regulatory reporting, but question the value of providing these to the AER. The working papers will be reviewed by independent auditors as part of the audit assurance process and could be made available on request. The working papers are likely to be specific and without a general understanding of our systems and processes, would be of limited value to a user.

Working papers will be prepared but we question the value of providing them to the AER. They will be reviewed by independent auditors as part of the audit assurance process. The working papers are likely to be specific and without a general understanding of our systems and processes, would be of limited value to a user. We recommend that working papers be made available on request.

2.8 Service performance information

ETSA Utilities currently reports on a quarterly and annual basis on its operational performance under ESCoSA's Guideline No.1. The majority of the information contained in worksheet 7.1 of the proposed annual information reporting templates contained in Appendix A are reported in accordance with Guideline No.1.

The following information details our concerns with reporting information contained in the Tables under worksheet 7.1

Table 3

ETSA Utilities currently reports MAIFI based on an estimate, not actual performance. As it is not proposed to include MAIFI in the STPIS for ETSA Utilities, it is intended that MAIFI will continue to be estimated. If the AER requires ETSA Utilities to report MAIFI for comparison purposes, ETSA Utilities will need to make a significant investment to be able to accurately measure MAIFI.

Table 4

ETSA Utilities systems would require modification to report on the proposed categories detailed in Table 4. ETSA Utilities currently only reports on the following categories under Guideline No.1:

- equipment failure
- planned
- operational
- other
- third party
- unknown
- weather

Table 8, 9 & 10.

It is assumed that if these measures are not included in our STPIS we will not be required to report.

In addition, Table 9 requires the reporting of the number of SLO reports by a customer of an immediate neighbouring residence. ETSA Utilities' GSL payments for SLO are not related to an immediate neighbouring residence and therefore we do not record this information.

Table 12

The reliability GSL payments as detailed in Table 12 do not apply to ETSA Utilities and therefore could not be reported by us.

Audit assurance

ETSA Utilities currently provides audit assurance on its reported reliability performance (this does not include categorisation of interruptions). There is no audit assurance on the other operational performance measures. We consider that it would be difficult to obtain audit assurance on all the information to be reported under worksheet 7.1.

It is recommended that ETSA Utilities only report on the measures either specified in our average service standards or included in our STPIS.

We further recommend that audit assurance of the reported performance is only applied to items included in the STPIS. This would require us to include telephone answering in our audit assurance at an additional cost.

3.1 Network planning and demand management

ETSA Utilities currently provides a detailed development plan on its website. However, the plan is not audited. It will incur additional time and cost to provide audit assurance, which is not consistent with the provision of plan information for the 5 yearly review of regulatory proposals. We recommend that this plan not be included as part of the AER's annual reporting requirements that are subject to audit assurance.

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4.1 Implementation of the RIO

Under the RIO, the AER requests that DNSPs report annually starting from the first regulatory year after the RIO is released. For ETSA Utilities, this would require annual reporting to the AER for the 2009/10 regulatory year. As highlighted above, the level of detail sought is significantly more than the reporting (and cost collection) currently provided to ESCoSA. To comply with the RIO we would need to have systems and processes in place to collect the required information by 1 July 2009. As we are still in the consultation phase at this time, and due to resource availability and other system change commitments, it will not be possible to meet the proposed timeframe.

An additional consideration is the potential for duplication if we are required to provide duplicate reporting for the AER and ESCoSA. From our brief discussions with ESCoSA, we have some confidence that they can rely on much of the proposed reporting, however formats and some information requirements differ and may place some doubt on this. There is likely to be some additional resource and cost to comply with both regulatory bodies requirements. Audit scope and timing will also be an issue. Transition to new reporting will make the ESCoSA deadline, which is earlier than AER's deadline, unattainable.

We recommend that, if the AER requires the level of detail contemplated, that the reporting commences in 2010/11, consistent with the start of the first regulatory review period that is to be administered by the AER.

ETSA Utilities will not be in a position to report the detail currently proposed in the reporting templates for the 2009/10 regulatory year due to system and process changes required. Additionally we are concerned with additional resource and audit costs associated with reporting to two regulatory bodies for the 2009/10 regulatory year. We recommend that the AER annual reporting commences in 2010/11, consistent with the start of the first regulatory review period that is to be administered by the AER.

4.2 Back-casting templates

The AER has requested that back-casting templates be provided for the previous two regulatory periods and include voltage, position and location information. As we have not captured costs on this basis, it will be extremely difficult, if not impossible, to provide accurate and reliable detail as proposed in the templates.

In addition, the cost allocation basis was altered significantly in agreement with ESCoSA from the period 2000-2005 to 2005-2010, and new reporting systems were also introduced late in the first regulatory period. Our ability to extract and provide comparable data prior to 2005 is thus very limited. Although we believe that we will be able to “back-cast” reasonably for the 2005-2010 period, it will not be at the level of detail anticipated in the templates, unless some high level estimates are used to assign expenditure.

Any audit assurance on back-casting information would be by reconciliation to ETSA Utilities’ prior regulatory reporting only. This would be both time consuming and costly and its value is uncertain.

Due to cost allocation and system changes in late 2005, our ability to back-cast data in the 2000-2005 regulatory period is very limited. We will be able to back-cast reasonably for the period 2005-2010, but not to the level of detail sought without high level estimates of expenditure.

5.1 Compliance costs

The Issues Paper states on page 23 that the RIO would be issued if the AER considers that the benefits outweigh the costs, and if it contributes to an achievement of the national electricity objective. ETSA Utilities recognises the need to provide the AER with detailed information to enable their appropriate monitoring of the performance of DNSP’s and the need for consistent reporting across jurisdictions, and will endeavour to meet all reasonable requests for information.

The detail required in the proposed reporting templates differs significantly from that currently provided, and major system and process changes will be needed to comply in its current form. Whilst we have not had an opportunity to investigate detailed costs, it is likely that we will incur costs in the millions and take up to a year to implement the necessary changes.

We believe that it would be prudent to review the level of detail to meet the AER's annual reporting requirements to ensure that the benefits outweigh the costs likely to be incurred.

It is likely that ETSA Utilities will incur costs in the millions and take up to a year to implement system and process changes required to meet the detail required in proposed annual reporting templates. We believe that it would be prudent to review the level of detail to ensure that the benefits outweigh the costs.

5.2 Assurance Requirements

The AER annual reporting combines financial and operating information, which presently is separated in our reporting to ESCoSA. Sinclair Knight Merz (SKM) provide audit assurance of operational data, whilst we engage Deloitte to audit our Regulatory Financial Report. We would anticipate that this arrangement would continue due to the skills of each group in their respective areas.

If an all-comprising audit opinion is required, Deloitte will be required to undertake an agreed upon procedures (AUP) review of work already performed by SKM at additional time and cost. Deloitte will provide positive assurance on the financial reporting component and an AUP opinion on the operational component. Their audit opinion will be in their own wording with reference to ETSA Utilities' accounting policies and the regulatory reporting guidelines.

ETSA Utilities propose to provide separate audit assurance of operational and financial information due to the skills of the groups that presently provide audit assurance.