

6 October 2008



Mr Chris Pattas
Network Regulation South
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Mr Pattas

**Submission on Annual Information Reporting Requirements Issues
Paper and Templates**

ENERGEX Limited (ENERGEX) welcomes the opportunity to respond to the Australian Energy Regulator's (AER) *Annual Information Reporting Requirements Issues Paper and Templates*. In providing a response, ENERGEX has focused on the issues that are directly relevant to its activities as an electricity Distribution Network Service Provider (DNSP) in Queensland.

While detailed comments are provided in the attached table, ENERGEX wishes to highlight a number of areas in which it has particular concerns.

Reporting requirements and the AER's regulatory function.

ENERGEX considers it important that the reporting requirements support the AER in carrying out its regulatory functions without imposing a significant compliance burden on DNSPs. In this regard however, it is concerned that the Issues Paper does not sufficiently align the regulatory functions with the proposed reporting requirements and, in that context, considers the benefits arising from significant changes to organisational systems and processes are unclear.

Costs of the Reporting Requirements

ENERGEX acknowledges and generally supports the AER's preference for standardised regulatory reporting across the National Electricity Market. However, it considers that this requirement needs to be balanced against the effort and cost of implementing and preparing those reports.

ENERGEX's current reporting capability and operational processes have been developed to support its existing internal and jurisdictional regulatory reporting requirements. These requirements are aligned closely with the Steering Committee on National Regulatory Reporting Requirements templates developed by the Utility Regulators Forum in March 2002.

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The reporting proposed in the AER's templates is more detailed, particularly in relation to:

- the classification of capital and operating expenditure by voltage, location and position; and
- the preparation of cashflow statements and allocation worksheets.

If the AER's reporting framework was implemented, ENERGEX strongly believes that it would be required to invest a considerable amount of resources, time and effort to enable development of the new reporting processes, as the changes necessary extend across all processes - planning, developing, issuing, reconciling and reporting network operating and capital activities. In this context, ENERGEX would be required to:

- change business operational processes;
- implement a revised reporting structure; and
- make associated changes to financial systems.

Accordingly ENERGEX believes the costs of implementing the proposed reporting framework would be significant, and would expect the AER to allow these costs to be passed-through to customers during the forthcoming regulatory period.

Network Planning and Demand Management Information

On an annual basis, consistent with its obligations under the Electricity Industry Code, ENERGEX prepares and publishes a Network Management Plan (NMP) which provides five-year planning and demand information. The NMP has been published for several years and is supported by established on-going processes.

ENERGEX is of the view that any additional reporting requirements in this context would be onerous and believes that the NMP, which will continue to be published, would largely satisfy the AER's network planning and demand management reporting requirements.

Timeframe for commencement of new reporting requirements

The final reporting requirements will not be known with certainty until the expected final release of the Regulatory Information Order (RIO) by the AER in February 2009. Accordingly, ENERGEX is concerned that this short timeframe will not provide sufficient time to implement any significant system and process changes to effectively capture the data from 1 July 2009. Moreover, ENERGEX has already commenced the planning and development of its 2009-10 work program, which is aligned to its current processes and reporting requirements.

ENERGEX's reporting ability may be further constrained by the availability of a finalised Cost Allocation Methodology (CAM), which may not be approved by the AER until as late as 30 June 2009. As the CAM is a key component of the costing methodology employed by any DNSP, development of new processes and systems require confirmation of the approved CAM before implementation can commence.

It should be noted that there is the potential for ENERGEX to be subject to two different reporting regimes for 2009-10. In addition to the AER's reporting framework which is proposed to commence at that time, ENERGEX will still be regulated by the Queensland Competition Authority and therefore be required to continue to provide regulatory reports consistent with its existing requirements. Financial systems

generally do not provide for the ability to process and capture data, particularly allocations, under two differing methodologies.

Consistency of annual reporting submission deadline

ENERGEX considers that the timeframe for submission of annual reporting requirements after year end should be four months. This will result in standardisation of the date for reporting, rather than the possibility of different dates if based on 80 business days, as proposed in the templates.

Back-casting templates will result in the provision of imprecise information

The proposed back-casting templates, although simplified versions of the capital expenditure and operating expenditure templates, will require substantial effort and the use of high level assumptions in their preparation. As identified earlier, ENERGEX's systems and processes have been developed to support the current Queensland regulatory reporting requirements. The proposed requirements for capital expenditure and operating expenditure reporting differ from current capability, particularly in relation to the categorisation of expenditure by type, voltage, location and position. Currently this detailed level of information is not captured by ENERGEX.

In order to complete the proposed back-casting templates, ENERGEX would be required to develop and apply high level assumptions to the currently available data. Clearly, the resulting information would be potentially imprecise and misleading, a point acknowledged by the AER in its Issues Paper.

Accordingly, for the purposes of the 2010 Determination, ENERGEX proposes that the back-casting information be more closely aligned to its current reporting requirements, thus providing the AER with more accurate and reliable information for decision-making purposes.

Audit requirement for annual reporting information

Statutory accounts form the basis of a DNSP's regulatory reporting. Given that these reports are audited annually as a requirement under the Corporations Law, the AER should take comfort that the underlying base information is both fair and reasonable.

To this extent, ENERGEX considers that the requirement for a DNSP to undertake verification or independent assurance of its annual regulatory reporting information could be based on a more light-handed and cost-effective process. This could occur, for example, through a tri-annual audit or the provision of exception-based assurance, where the AER, through its review of the annual reporting statements, identifies a potential issue requiring independent assurance.

AER to host future workshop

ENERGEX recognises that many of the matters raised in the Issues Paper are complex and the implications for DNSPs significant. In this context, it believes that, following receipt of submissions to the Issues Paper, the AER should host a workshop to:

- provide an opportunity for it to clarify its information requirements;
- assist it in understanding the concerns of DNSPs and the reporting limitations that they face; and
- collectively explore potential alternative reporting measures.

In conclusion, ENERGEX looks forward to continue to work with the AER to develop consistent and relevant annual reporting requirements that do not impose unnecessary compliance costs on DNSPs.

Please do not hesitate to contact Mick Ryan, Regulation Manager – Commercial, on (07) 3407 4386 should you wish to discuss any aspect of this submission.

Yours sincerely



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