Ref: JD/KC

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Dear Mr Pattas

Revised draft economic benchmarking templates for comment

Ergon Energy Corporation Limited (Ergon Energy) welcomes the opportunity to provide comment to the Australian Energy Regulator (AER) on its draft economic benchmarking templates emailed (and refined) on 31 July and 5 August 2013 respectively.

Ergon Energy's overarching concerns as noted in prior informal consultation and forums held on the draft economic benchmarking templates, and in submissions to the AER in a broader context relating to the development of Better Regulation: Expenditure Forecast Assessment Guidelines (Guidelines) for Electricity Distribution and Transmission process[1] remain valid and we reiterate as relevant herein. Additional comments are also provided but by no means are exhaustive. Further comments will be made in submission to the AER's Draft Guidelines and associated templates recently released.

- The annual and determination Regulatory Information Notice (RIN) processes generate a significant amount of information and require considerable effort to produce. In addition to current Annual Performance reporting requirements, Ergon Energy, like all Distribution Network Service Providers (DNSP), collects, analyses and stores significant amounts of data for its own information to enable it to make decisions. In the last few years particularly, there has also been significant concentration on external reporting of DNSP information as well. However, not all information currently maintained or produced will be fit for purpose for the new reporting requirements currently being implemented.

- Ergon Energy does not see the timeframes for collection of economic benchmarking data as realistic and achievable. Keeping in mind the implementation time required by DNSPs, which may not currently have in place the systems to commence recording data in the format required to meet RIN requirements, the AER would also need to acknowledge the data gaps or averaging that may occur for a period of time whilst systems and processes are reviewed and upgraded and new methodologies implemented.

- For the initial benchmarking RIN, Ergon Energy notes the current timeline would not be feasible and more time is required to prepare and collate in the format required (which will only be known in Final RIN by October/November), review and audit data and allow for submission to the Board and appropriate committees for approval, prior to release to the AER. Ergon Energy requests the AER strongly consider allowing a **deliverable date of late March 2014** in order for the business to maintain existing momentum whilst working towards achieving the timeframes for delivery of Ergon Energy's submission requirements. This would allow significant time still to accommodate the AER's analysis before release of its initial benchmarking report in September 2014.

- High quality data is essential to the credibility of the any benchmarking exercise, and the AER have noted they consider that it essential for all financial and non-financial data provided in the economic benchmarking RIN to be audited. Ergon Energy notes that the scope for Audit (or other alternative

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[1] Ergon Energy Submission on the Better Regulation: Expenditure Forecast Assessment Guidelines for Electricity Distribution and Transmission Issues Paper, 15 March 2013

approval) needs to be clearly defined <u>with further consultation</u> to ensure absolute clarity – particularly given engagements will be required to be negotiated with Auditors, and the outturn cost is expected to be high. For example - will disaggregation of data be audited even where it may reconcile to data previously provided / audited; will that reconciliation of previously provided data be auditable. Ergon Energy also notes the AER comments that in lieu of auditable data, Director Certification may be required, raising concerns not only as civil penalties apply in this regard, but Directors signoff are usually accompanied by an assurance provided by an independent Auditor. To do otherwise would surely create a level of risk not acceptable to Directors. Ergon Energy refers the AER to the current 2012-15 Annual Performance RIN issued to it by the AER in October 2012, for the standard of negotiated terms of Audit / Statutory Declaration signoff process currently applying to annual RIN reporting.

- The draft templates note the intent for businesses to provide 10 years of back cast for the period 2003 to 2012 inclusive. Following on from earlier comments regarding current data availability and time to produce, it is unreasonable to expect that DNSPs will be able to populate the templates directly from information that it has on record. Where even accessible via existing systems in place (e.g. Ergon Energy replaced its accounting system during this back cast period), data may not be on record in the format / basis requested, be of limited quality or reliability, or only available at a very high level and (possibly inconsistent) approaches to disaggregation would need to be employed – collectively this would undermine any conclusions that may be able to be drawn from the data.

- From the implementation of the Annual Performance RIN reporting (2011) Ergon Energy has put into operation specific data retention regimes in compliance with the AER's specifications. Where required, assumptions are made in providing data – however there are also limited circumstances where there has previously been no business need, or legislative requirement to retain certain information and Ergon Energy has been unable to provide verifiable data on a reasonable basis. The annual RIN allows for explanations as to the reasons why and a plan as to when data will become available. Similar to the annual performance RIN, the AER has indicated that for the economic benchmarking RIN where actual data isn't available DNSPs must provide their best estimates in order to populate the templates outlining their assumptions or allocations therein. In providing estimates there can be no assurance as to data quality and consistency especially so if each business is free to adopt its own assumptions and methods to produce the data (though to apply a standard set of assumptions and methods would also be unreasonable). Furthermore, Ergon Energy requests the AER acknowledge data gaps for a period of time as the economic benchmarking requirements are implemented and provide for a clause for non-provision of data where certain variable data sets have never been collected, or the calculation of an estimate may result in nonsensical results (refer again to the current 2012-15 Annual Performance RIN issued to it by the AER in October 2012).

Other general comments relating to the templates are provided below:

- It is imperative that variable definitions for economic benchmarking data requirements are sufficiently clear and precise to provide for consistent interpretations of the information that is to be provided. Consistency is required across DNSPs and through time.

- Templates require data across years for Network Services, Standard Control Services (SCS) and Alternative Control Services (ACS). It is not clear why Alternative Control Services data is required, when the assessment approach and techniques likely to apply to Alternative Control Services do not form part of the AER's Draft Expenditure Forecast Assessment Guideline for Electricity Distribution. Rather they will be considered at the Framework and Approach stage. Furthermore, the Economic Insights' recommendation (adopted by AER) was for a narrow service coverage that only includes network services, requiring only SCS data from DNSPs.

Following on from this:

o SCS (and ACS) are AER Classifications of services whereas Network Services (classified as SCS) is an AER Service Group. The relationship between Network Services and SCS needs to be made clear in the context of data required, for example, does SCS input represent total SCS (inclusive of Network Services).

o All yellow cells are noted to require input. As relevant, would a DNSP grey out where input is not appropriate (e.g. Table 3.2 Opex Consistency – DOPEX0203 Public Lighting for EECL is an ACS. Do we grey out Network Services/SCS input cells as not required);

o Similarly, the Regulatory Asset Base (RAB) variable definition refers to a meaning as per the National Electricity Rules (NER). The NER does not define RAB, rather it notes the nature of a RAB for a distribution system owned, controlled or operated by a DNSP is the value of those assets that are

used by the DNSP to provide SCS, but only to the extent that they are used to provide such services. ACS inputs are not relevant / appear inconsistent in this regard. Furthermore the relationship between data input under "Network Services" versus "Standard Control Services" would need to be clear in this regard.

Other instances where clarity would be required may also exist.

- Year coverage is defined three ways - 'year ending June of' (financial year), 'year ending December of' (calendar year) and 'regulatory year'. It not completely clear what data is required, given templates imply a request for financial year data, which may or may not align with regulatory year data depending on the DNSP, whereas instructions for completing tables refer to 'regulatory years' (when describing the use of real or nominal terms for dollars reported). Input values are also required to be determined in accordance with the Cost Allocation Method in place for the relevant regulatory year.

- Network assets, as presented in the RAB are usually combinations of equipment types, and these can span several asset classes (with the asset class usually being the basis of the regulatory depreciation schedule). The replacement costs of the asset class should not be confused with the schedule of rates estimates that an engineer uses to produce an expenditure forecast. Comparability represents a significant issue. For example, an estimate for a particular 10km line extension will not be the same for another 10km line extension in a different location. Estimates are likely to vary significantly within a network area, let alone estimates in different networks areas.

- The draft RIN requests that DNSPs should populate the opex categories on the basis of their annual performance RIN categories. This information will be inconsistent across DNSPs in different jurisdictions and therefore will be of little value for economic benchmarking.

- Operational Data (sheet 5):

  o It is recommended the sheet is more appropriately titled "Energy and Load Forecasting".

  o In relation to Table 5.3 System Demand, Ergon Energy notes it successfully negotiated the removal from its Annual Performance RIN of a requirement for annual system maximum demand characteristics to be reported (MVA measure) at the system level which DNSPs may not have available. Refer earlier comments on inability to provide data.

  o A vital and necessary step in comparing system data with substation data is a reconciliation process often referred to as 'trimming', which has not been accounted for in the benchmark data request.

  o Where relevant, temperature correction has not been specified (i.e. the Probability of Exceedance level) as requiring 10POE or 50POE or both, rather correction as requested in the Benchmark template requires a new methodology and one that will not been reviewed by external and independent consultancies. This will require time, money and resources to meet a currently non-existent requirement and we refer AER again to prior comments on possible initial data gaps.

- Physical Assets (sheet 6):

  o Recommend changing title of Tab 6 to "Network Capability and Utilisation"

  o With regards to weighted average circuit capacity - In sub-transmission, one assumes that an individual circuit is rated according to its least rated component, but the goal is for the whole circuit to have the same rating. This is different for distribution feeders, where the rating generally decreases as you go out along the feeder. The extremities of a distribution feeder may have many km of much lesser rating.

- Quality of Services (sheet 7)

  o The information in 7.3 System Losses appears to be calculated from the information in 5.1, so these could be grouped together in the same sheet. Alternatively it may be appropriate to transfer requirements 7.3 (System Losses) and 7.4 (Capacity Utilisation) from sheet 7 "Quality of services" to sheet 6 "Physical Assets".

  o DQS04 "Line losses" may be more appropriately called "Network losses".

Comments relating to the specific variables and definitions set out in the draft templates are provided below:

- DEF0202 "Vegetation encroachment" - This item is not clearly defined. The definition needs to specify what 'requiring vegetation management' means? Does it mean spans are inspected or cut or both? (Refer ENA Submission).

- DEF0203 "Standard vehicle access"- More clarity is required on how to calculate the percentage. How is total network measured? How is the standard vehicle access proportion measured? I.e. what are the units of measurement?

- DSQ01 "SAIDI" - The unit of measurement is minutes however the description is minutes/customers. It is therefore not clear if the index is required or total customer minutes off supply.

- DSQ02 "Distribution –related unplanned SAIDI" - the unit of measurement is minutes however the description relates to customer numbers. It is therefore not clear what is required.

- DQS05 "overall network utilisation" - there may not be a sensible way to define this that can provide a single number. The network is made up of many different components, all with their own level of utilisation. Ergon Energy is unclear as to the meaning of "product of total network length and transformer capacity".

- DDEF0702 (Voltage Classifications) "High Voltage" – Despite recommendation to allocate capacity and lengths to the nearest voltage (e.g. 12kV to 11kV); suggest adding SWER voltages as separate voltage classification (12.1kV and 19.1kV). SWER is already classified as an independent category under DPA0105.

- DDEF0703, DPA0107, DPA0206 – Delete "44" from "44/33kv".

- DPA0402 – add "Underground high voltage 11kV".

- DREV0301-03 (Revenue (penalties) allowed (deducted) through incentive schemes) – it is not possible to back cast revenues/penalties against schemes which were not relevant to a DNSP historically.

Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact either myself on (07) 4092 9813 or Kim Casey on (07) 4789 5432.

Yours sincerely

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