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9 October 2008

Mr Chris Pattas
General Manager
Network Regulation south Branch
Australian Energy Regualtor
GPO Box 520
Melbourne Vic 3001

Dear Mr Pattas

ISSUES PAPER: ANNUAL INFORMATION REPORTING REQUIREMENTS

Ergon Energy Corporation Limited (Ergon Energy) appreciates the opportunity provided by the Australian Energy Regulator (AER) to comment on the development of the Annual Information Reporting Requirements to support the transition to a nationally consistent framework for the economic regulation of electricity distribution networks.

The attached submission represents Ergon Energy response to the AER's proposed Annual Information Requirements.

Should you require further information, please contact Ergon Energy's General Manager Regulatory Affairs, Tony Pfeiffer on 07 3228 7711.

Yours sincerely

Greg Evans
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Ergon Energy Corporation Limited

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

– Submission

Australian Energy Regulator

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1 Executive Summary

The key points raised in Ergon Energy's response to the Australian Energy Regulator on the Annual Information Reporting Requirements Draft Decision released in August 2008 include:

- While Ergon Energy appreciates the AER requires information to assess a DNSP's performance during the course of a regulatory control period, Ergon Energy considers that the level of information required to be provided under the proposed RIO goes beyond what would be reasonably required for the AER to carry out its regulatory functions. Further, Ergon Energy considers the proposed RIO is not consistent with the high level policy intentions which shape the National Electricity Regulatory Regime;

- In addition, Ergon Energy notes that the draft templates request a level of detail that significantly exceeds that requested by its current economic regulator, the Queensland Competition Authority. As a result, compliance with the draft templates would require substantial changes to Ergon Energy's business reporting platforms and processes. If the RIO is published in its current form, Ergon Energy would incur significant expenditure in the millions of dollars to enable compliance and would take several years to implement. An estimated date for completion could fall into mid-way through the next regulatory period.

- Against this background, Ergon Energy considers to ensure that the appropriate balance is achieved between the Regulator's need for information to effectively undertake its functions and the significant costs to the regulated business of developing systems to provide that information, that the AER should reassess each of the information requirements set out in the proposed RIO.

- Ergon Energy considers that the level of historical expenditure information in back-casting templates and detailed annual reporting on projects and categories required under the RIO is not reflective of an ex ante regime.

- Although Ergon Energy notes investing in system and process changes will enable compliance with the RIO, the business will not obtain any additional benefits;

- Against this background, Ergon Energy submits that the AER should conduct a review of its regulatory obligations and articulate the specific information required to meet those obligations;

- Ergon Energy also believes the AER should clearly specify what function the information requirements in the proposed RIO meet. Ergon Energy considers information required to be filed annually should only reflect information required to meet AER's annual functions. Information sought to meet functions associated with a five-yearly review of a regulatory proposal should not be included in the RIO.

- Ergon Energy would be pleased to meet with you or to participate in a round table discussion with the AER and other DNSPs to resolve these issues prior to the AER issuing its paper to the public.

2 Introduction

Ergon Energy Corporation Limited (Ergon Energy) welcomes the opportunity to provide comment to the Australian Energy Regulator (AER) on its "Issues Paper – Electricity Distribution Network Service Providers Annual Information Reporting Requirements" (the Issues Paper).

This submission is provided by Ergon Energy in its capacity as an electricity distribution network service provider (DNSP) in Queensland.

Ergon Energy has structured this submission in three parts:

Part 1: Outlines Ergon Energy's views on the legal and policy considerations which need to be addressed in developing the Regulatory Information Order.

Part 2: Identifies key issues with the proposed Regulatory Information Order from both a policy and a business implementation perspective.

Part 3: Provides detailed comment on the questions raised in the AER's Issues Paper and the proposed annual reporting templates.

Ergon Energy would be pleased to discuss this submission with the AER and to provide further information should the AER require.

3 Part 1: Legal and Policy Considerations

Ergon Energy submits that any Regulatory Information Order must be both consistent with the National Electricity Rules, as well as meet the high level policy considerations which shape the National Electricity Regulatory Regime.

In this context, Ergon Energy has identified two key considerations which are outlined below:

3.1 Assessment of 'Reasonably Required'

The National Electricity Law (NEL) provides that the AER should only make a general regulatory information order (RIO) if it considers it reasonably necessary for the performance or exercise of its functions or powers under the NEL or the National Electricity Rules (NER). In considering whether it is 'reasonably necessary' the AER must have regard to the matter to be addressed by the RIO and the likely costs that may be incurred by the network service provider (or related provider)[1]. The NEL also provides that any regulatory information instrument must state the reasons for requiring the information described in the instrument[2].

Ergon Energy understands that the combined intent of these provisions is to ensure that the appropriate balance is achieved between the Regulator's need for information to effectively undertake its functions and the significant costs to the regulated business of developing systems and maintaining records to provide that information.

Ergon Energy considers that a robust assessment of the 'criteria' of 'reasonably required' balanced against 'likely costs' needs to be undertaken against each of the information requirements set out in the proposed RIO.

Ergon Energy notes that the Issues Paper goes some way to providing reasons for the information requests. However, Ergon Energy considers that a more robust justification for certain information requests is required. The Issues Paper also does not address in any detail the likely costs of information provision.

Part 3 of this submission identifies those information requirements which impose a significant cost on the business and, in Ergon Energy's view, are not 'reasonably required'.

3.2 Consistency with Regulatory Framework

As a general comment, Ergon Energy considers that the level of information required to be provided under the proposed RIO, is not consistent with the high level policy intention behind the new Regulatory Framework.

A common theme in the development of the new provisions of the NEL and NER relating to economic regulation of distribution networks was recognition of the significant

[1] Section 28F, National Electricity Law.

[2] Section 28K, National Electricity Law.

costs regulation can impose on society and the regulated entity. The Ministerial Council on Energy, in its terms of reference to the Expert Panel on Energy Access Pricing, noted that:

> *"A key objective of the MCE's energy market reform program is to ensure that, where the decision has been made to impose price regulation, costs are kept to a minimum while maintaining the effectiveness of regulation…"*

Ergon Energy does not think that the scope of information required under the proposed RIO gives sufficient regard to the intention of policy makers to minimise the costs of price regulation.

The new Regulatory Framework contained in Chapter 6 of the NER contains an 'ex ante' approach to assessing expenditure for future regulatory control periods. Ergon Energy considers that the level of historic expenditure information and detailed annual reporting on projects and categories required under the RIO is not reflective of an ex ante regime.

Ergon Energy understands that an ex ante allowance does not relate to specific projects or opex expenditure. As such, Ergon Energy considers it inconsistent with the current regulatory framework for the Regulator to seek to set or monitor the annual budgets of regulated entities. Moreover, it is likely and desirable in terms of meeting customer needs that forecasts change as budgets are developed each year in response to demand and activity.

Ergon Energy appreciates that the AER wishes to understand past expenditure as a predicator of future forecasts and expenditure but considers that the level of detail sought goes beyond what is reasonably required in an ex ante framework.

4 Part 2: Key Issues

4.1 Directors' Responsibility Statement

Ergon Energy considers that the requirement in Section 2.1 of the Issues Paper that information provided by a DNSP be accompanied by a directors' responsibility statement is inappropriate.

Ergon Energy is of the view that the regulatory assurance report, "Report of factual findings from agreed-upon procedures", as included in Appendix C page 32 of the Issues Paper, is sufficient for the purposes of satisfying the RIO.

4.2 Provision of Cash Flow, Balance Sheet and Income Statements

Ergon Energy would have significant difficulty in providing a Cash Flow Statement for the Regulated business and questions its appropriateness to the AER in carrying out its functions.

Ergon Energy also notes to reconcile between Statutory Accounts and Regulatory Reports where supporting references are required will also significantly increase the reporting burden and require additional time and resources.

4.3 Provision of disaggregation statements

Refer to comments at 3.2 Provision of Cash Flow, Balance Sheet and Income Statements.

4.4 Assurance Statements

Ergon Energy is of the view that a “Report of factual findings from agreed-upon procedures” is the appropriate form of regulatory assurance, for the purposes of satisfying the RIO. An example of which is included in the Issues Paper in Appendix C on page 32. An increased level of assurance would require significant duplication of audit effort, as regulatory statements are based on a different asset base to the statutory statements. An agreed-upon procedures review would be able to target specific issues requiring independent assurance including the roll forward of the Regulatory Asset Base and the application of the Cost Allocation Method.

4.5 Related Entities Expenditure

Ergon Energy questions the relevance of reporting the top ten expenditures with other entities in the context of annual reporting and monitoring of DNSPs.

4.6 Capital Expenditure Information

Ergon Energy does not support reporting capital expenditure by voltage level using the predetermined cost drives (network extensions, increased load management, renewal/replacement, and service improvement).

4.7 Material Projects and Programs

Ergon Energy questions the relevance of reporting the annual expenditure for material projects when projects could span over regulatory reporting periods and spend is inconsistent year on year. This requirement is also inconsistent with an ex ante framework.

4.8 Timing of RIO

Ergon Energy considers that the proposed timing for implementing the RIO is too short and raises significant difficulties in terms of implementing the systems required to capture and report the required information for the 2009-10 year. In addition, if the RIO is published in its current form Ergon Energy believes with the timeframe for implementing system and process changes it would be unable to meet AER’s requirements until mid Regulatory period (2012-13).

5 PART 3: Detailed Comments

5.1 Annual Reporting Templates – Contents and Categories

Capex

Are the proposed capex templates appropriate for the AER’s regulatory functions? Please provide comments regarding the cost categories and definitions included in the capex templates?

Ergon Energy does not support the level of disaggregation in the proposed capital expenditure Template 2.1 Table 1. It is also noted the requirements to report at voltage level using predetermined cost drivers (network extensions, increased load management, renewal/replacement, service improvement) is additional to the existing jurisdictional reporting requirements in Queensland.

Ergon Energy notes it may be necessary to make judgements about the allocation of capital expenditure across feeder types (urban, rural short, rural long) when projects are held in Work in Progress at year end. Capital expenditure is recognised in the Fixed Asset Register once a project is finalised and added to the Regulated Asset Base. Where projects are in progress at the financial year end the assets are not held in the Fixed Asset Register they are held in Work in Progress in the general ledger. The general ledger holds financial information relating to a transaction as opposed to asset information such as feeder system data.

Ergon Energy considers the cost drivers identified and defined in Template 2.1 Table 1 as defined in Table 4 do not provide a reasonable method of measuring performance or outcomes. Further, Ergon Energy is concerned that the proposed capex reporting requirements will not provide a reliable measure in assessing efficiency of expenditure.

Ergon Energy's view is that statutory reporting information is sufficient for the purposes of assessing efficiency of expenditure on an annual basis.

Ergon Energy understands the rationale for the information requirements is to assess efficiency by establishing a relationship between certain inputs and outputs. While this produces a measure of efficiency there are significant difficulties associated with relying on such a measure. In particular:

- There are significant measurement difficulties associated with both the outputs and inputs as a consequence of most network distributors producing multiple outputs, and all using multiple inputs;
- Often the output measure is highly aggregated. For example, a typical output measure is the total number of kWhr. In Ergon Energy's environment the use of kWhr as an output measure is inappropriate as the network configuration and development is primarily demand driven not energy driven. The asset type and configuration is not driven by kWhr and is significantly constrained by the historical investments in assets. Voltage level is a simple example of a characteristic that is not driven by the most efficient method of delivering energy to a customer but significantly driven by the historical development; and
- An 'apparent' increase in efficiency could be explained by the increase in the use of another input, but this does not form part of the measure. For example, output may go up because a utility gains a large customer instead of becoming more efficient.

Ergon Energy also notes that distinguishing expenditure by voltage level would be problematic. This is principally because many assets and projects cover multiple voltages and costs cannot be meaningfully attributed to each.

Ergon Energy also seeks further clarification on whether dual and triple voltage circuits should be included in the definition of Sub transmission in Template 2.1 Table 4.

Ergon Energy also notes the definition for Central Business District and Urban differ to that current adopted which would require additional work to align classifications.

Opex

Are the proposed opex templates appropriate for the AER's regulatory functions? Please provide comments regarding the cost categories and definitions included in the opex templates?

Ergon Energy does not support the level of disaggregation in the proposed opex Template 2.2. In this regard, Ergon Energy notes that the AER is seeking significantly more detail than what it provides to its current regulator. Ergon Energy also queries why this level of detail is required as it is more akin to the level of detail required to manage the business rather than to regulate the business.

In respect of Maintenance expenditure, it is not clear how expenditure information 'broken down' by asset type, network type and maintenance reason will provide the AER with a reasonable basis upon which it can assess the efficiency of the expenditure. Ergon Energy considers further justification for why this information is required as it adds considerably to the existing reporting requirements and will require DNSPs to incur additional costs.

Similar to capex, Ergon Energy notes that distinguishing expenditure by voltage level would be problematic particularly in corrective / emergency events as work orders are kept necessarily broad in accordance with current work practices. To provide the required information, Ergon Energy would need to make significant changes to current practices to ensure detailed costing data was captured. In situations such as emergency events this level of reporting would be inappropriate as it the primary objective for the business would be to return power to the community.

To exclude certain expenditure types (ie: brand advertising etc) from the advertising and marketing category, would involve additional analysis compared to current reporting requirements. This would require a change to existing practices and the business would incur costs.

Ergon Energy notes the definition for Network systems operations is broader than that currently adopted which would require additional work to align classifications.

Material Projects and Programs

Is 2 per cent of the DNSPs anticipated revenue in the final year of the current regulatory control period an appropriate threshold?

Is the information collected in the template appropriate for the AER's regulatory functions?

Ergon Energy queries whether information reporting in Template 2.3 Table 1 to report material projects and programs on an annual basis will assist the AER in discharging its regulatory functions.

Ergon Energy acknowledges project and programs are measured using a materiality threshold of 2% for total capital expenditure over the regulatory control period. However, the nature of major projects and programs are such that year on year reporting of expenditure is unlikely to provide meaningful data given major projects or programs may:

- have an uneven expenditure profile with greater expenditure occurring in either the early or later years of the project; and
- span more than one regulatory control period.

Further, it is not apparent why, in an ex ante framework, the AER requires detailed information on specific projects and programs to discharge its regulatory functions.

5.2 Pro Forma Statements for Financial Information

The AER welcomes submission on the proposed information collection pro-forma templates?

Ergon Energy suggests the account code or reference to account code, journal number, and supporting reference in these templates should be optional or excluded from the

RIO and included as part of the audit scope under the "factual findings from Agreed Upon Procedures".

Ergon Energy also suggests the mandatory request for a work paper identifying directly attributed and allocated amounts for each cost or revenue item for standard control distribution services should be excluded from the RIO and included as part of the audit scope under the "factual findings from Agreed Upon Procedures".

- **Income Statements**

Ergon Energy notes in Template 3.1 Table 1 in reconciling between Statutory Accounts and Regulatory Reports where supporting references are required for regulatory adjustments will increase the reporting burden and require additional time and resources.

- **Balance Sheet**

Ergon Energy notes in Template 3.2 Table 1 in reconciling between Statutory Accounts and Regulatory Reports where supporting references are required for regulatory adjustments will increase the reporting burden and require additional time and resources.

Ergon Energy also notes that due to current operational practices and system constraints some assumptions would be required to apportion balance sheet items across business segments (Standard Control, alternative control, and unregulated distribution services). Examples of accounts requiring apportioning for disaggregated reporting include corporate balances such as funding, bank, and employee liabilities.

The structure of the general ledger would also require significant realigning which would be prohibitively expensive to implement.

- **Cash Flow Statement**

Ergon Energy notes that the requirement for a cash flow statement in Template 3.3 Table 1 is additional to existing jurisdictional reporting requirements in Queensland. It is also noted that a cash flow statement is not required to conduct a five-yearly review, thus there is no requirement to measure actual annual cash flows against forecast cash flows by the AER.

Ergon Energy questions the validity of preparing a special purpose cash flow statement for standard control distribution services. Ergon current processes and reporting structure does not differentiate between standard control distribution services, alternative control, and unregulated distribution services for corporate balance sheet items such as trade creditors, trade receivables, employee entitlements, and cash at bank.

Estimates and allocations to apportion cash receipts and payments to these business segments would be required. Using allocations dilutes the purpose of a cash flow statement as it would not be an actual account of the entity's cash receipts and payments during a period. The economic regulation of Ergon using a building block approach to determine the revenue or price ceiling predicts to a large extent the basis of future timing of cash inflows and amounts which also dilutes the importance of this report.

Ergon believes the cash flow statement prepared for statutory reporting purposes in accordance with Part 2M.3 of the Corporations Act satisfies the needs of its users.

To restructure the Ellipse general ledger and implement process changes to report a cash flow statement by business segment would be prohibitively expensive and would be unlikely to provide any more certainty to the efficient operations of the business than the statutory cash flow statement.

5.3 Disaggregation Statements

- **Reporting by Business Service Segment**

Refer to comments on income statement.

- **Income disaggregation Statement**

Refer to comments at 4.2 Income Statements.

- **Balance Sheet disaggregation statement**

Refer to comments at 4.2 Balance Sheet.

- **Cash Flows Disaggregation Statement**

Refer to comments at 4.2 Cash Flow Statement.

- **Network Support Pass Throughs and Cost Pass Throughs**

Ergon Energy seeks further clarification on the applicability of Template 8.1 Table 1, Network support pass throughs, to DNSP's.

Section 6A.7.2 (b) of the NER states the following:

> *If a network support event occurs, a transmission Network Service Provider must seek a determination by the AER to pass through to Transmission Network Users a network support pass through amount.*

Section 6A relates specifically to Transmission Network Service Providers.

Ergon Energy also seeks confirmation from the AER on its intention to release an Electricity Distribution: Cost Pass through Guidelines document for the purposes of Template 8.2 Table 1 and 2.

- **Capital Contributions**

Ergon Energy notes that the requirement to report prepayments and financial guarantees in Template 2.4 Table 1, is additional to existing jurisdictional reporting requirements in Queensland.

5.4 Working Papers to Support Disaggregation Statements & Statements Relating to Direct Control Distribution Services

- **Causal Allocations**

Ergon Energy notes that the requirement for providing the Regulator with Causal allocation Working Papers in Template 5.1 Table 1 and 2 on an annual basis is additional to existing jurisdictional reporting requirements in Queensland.

Ergon Energy believes the basis and application of the CAM should be addressed as part of the audit scope under the "factual findings from Agreed Upon Procedures" and the work papers identifying directly attributed and allocated amounts for causal allocations should be excluded from the RIO.

- **Non-Causal Allocations**

Ergon Energy currently does not apply non-causal allocators as detailed in Template 5.2 Table 1 and 2.

- **Regulatory adjustment Journals**

Ergon Energy notes the requirement to report regulatory adjustment journals as required in Template 10.1 Table 1 is additional to existing jurisdictional reporting requirements in Queensland. This requirement would increase the regulatory burden and would require additional time and resources to provide.

5.5 Asset Schedules and Supporting Papers

- **Asset Disaggregation**

Ergon Energy notes in Template 4.4 Table 1 to reconcile between Regulatory and Non-Regulatory Assets will increase the reporting burden and require additional time and resources.

- **Property, Plant and Equipment Reconciliation**

Ergon Energy notes in Template 6.1 Table 1 to reconcile between Regulatory and Non-Regulatory Assets will increase the reporting burden and require additional time and resources.

- **Asset Ageing Schedule**

Ergon Energy questions whether the level of detailed information required in Template 6.2 Table 1 provides meaningful data to the AER in terms of it discharging its regulatory functions. It is considered that the classes of asset are too broad to allow meaningful interpretation of the data.

If an asset is re-valued on the basis of a refurbishment program that extends its life it could have its remaining life adjusted to a revised regulatory life and the table would not show that a DNSP was performing this asset management function efficiently as the table would not credit any life extension from its original manufactured expectation.

The detail required to provide this information for all classes of assets would be a burden to a distributor that would only increase costs to the consumer without providing valid performance information on the efficiency of the asset replacement or refurbishment expenditure.

Ergon Energy is unable to provide exact information for assets purchased by the six regional distributors prior to forming Ergon Energy in 1999 as installation dates for assets were not kept. The cost of identifying these dates would be significant therefore it may be necessary for Ergon Energy to make judgements to back calculate using Gross Cost, Net Book Value and Standard Category lives. As a result of adopting an independent valuation on Ergon Energy's Regulated Asset Base within the current regulatory control period adds additional complications for reconciling the remaining life of assets by category.

- **Network Characteristics**

Ergon Energy questions the relevance of this Template in the context of annual reporting and monitoring of DNSPs. Ergon Energy believes that the information requested in Templates 6.3 would be more appropriate for consideration by the technical regulator.

5.6 Relationships and Expenditures with Other Entities

Ergon Energy is able to provide the information requested in Template 9.1, however it should be noted that this information is also detailed in the Cost Allocation Method (CAM) to be approved by the AER.

Ergon Energy notes that the requirement for expenditures with other entities in Template 9.2 is additional to the existing jurisdictional reporting requirements in Queensland. Ergon Energy questions the relevance of Template 9.2 in the context of annual reporting and monitoring of DNSPs.

If information is required on the quantum of transactions with related parties as opposed other persons, this could be added to the information to be supplied in Template 9.1

5.7 Service Performance Information

- **Section A: Reliability**

The AER notes in its "Framework and Approach Paper Application of schemes" (June 2008) that:

> *Given the widespread nature of QLD distribution networks, AER understands Energex and Ergon do not have the data gathering capacity to measure momentary interruptions*
>
> And
>
> *The AER's preliminary position is not to apply the MAIFI parameter of the S-factor to Energex and Ergon during the 2010-15 regulatory control period.*

In relation to this, Ergon Energy seeks clarification that MAIFI will not be required to be reported by Ergon Energy in Table 3 of Template 7.1 of the annual reporting templates.

In respect of unplanned interruption data as required in Table 4 of Template 7.1, Ergon Energy seeks clarification if the AER intends to provide additional definitions around the interruption category classifications, or if the AER intends to accept the DNSP's interpretation of these categories. Further clarification is also sought around the unit of measure required for the parameter (for example does "No." reflect normalised unplanned SAIDI or SAIFI, or the total number of unplanned interruptions).

- **Section B: Quality of supply**

No comment is provided.

- **Section C: Customer Service**

With respect to the data requirements for Tables 8 through 10 of Template 7.1, Ergon Energy requests clarification on whether data will be required to be reported on optional customer service parameters in the STPIS scheme which will not be applied or proposed by Ergon Energy in the regulatory control period.

Further, in the event that customer service parameters fall under the category of alternative control services in the regulatory control period, Ergon Energy also seeks clarification if data is required to be reported for applicable measures. It is noted that Ergon Energy has received approval in its submission to the AER Framework & Approach Stage 1 for street light services to be unregulated (as an alternative control service).

Ergon Energy notes that the data requirements in Tables 5, 6, 11 and 12 of Template 7.1 are beyond the requirements of STPIS which will apply to Ergon Energy in the 2010-15 regulatory control period and questions the relevance of providing this data in the context of annual reporting and monitoring of DNSPs. Ergon Energy believes that the information requested in these tables would be more appropriate for consideration by the technical regulator.

- **Section D: Guaranteed service level (GSL) reporting requirements**

No comment is provided.

- **Section E: Worst performing feeders**

While Ergon Energy does not object in principle to reporting information in relation to worst performing feeders as required in Template 7.1 Table 13, it is not clear how the information is relevant to assess Ergon Energy's performance against the STPIS or assist the AER further develop the scheme. Ergon Energy seeks further clarification around the assessment criteria of "worst performing" to determine which feeders would qualify to be reported in the templates.

- **Major Event Days**

Ergon Energy seeks further clarification on the requirement to report GSL impacts in the Major Event Day template in Template 7.2, given that GSL performance will not be a component of the STPIS for Ergon Energy in the 2010-15 regulatory control period.

- **Other Excluded Items**

Ergon Energy seeks further clarification on the requirement to report GSL impact in the Other Excluded Items template in Template 7.3, given that GSL performance will not be a component of the STPIS for Ergon Energy in the 2010-15 regulatory control period.

6 Other Information Requirements

6.1 Network Planning and Demand Management

Is the proposed information required for network planning appropriate for the AER's regulatory functions?

Pursuant to the Queensland Electricity Industry Code Clause 2.3.1 Ergon Energy currently publishes a network management plan on an annual basis. The network management plan must, amongst other information, include the following:

- the operating environment including growth forecasts;
- a risk assessment of the major constraints in the distribution entity's network and how they may be alleviated; and
- the distribution entity's demand management strategy, including a description of the existing and planned programs and opportunities for demand side participation.

Ergon Energy also notes that the Ministerial Council on Energy (MCE) is currently consulting with industry participants to develop a national framework for distribution network expansion and planning. As part of the current consultation process, the MCE is considering the appropriate information disclosure and reporting requirements for DNSPs in respect of their network planning activities.

While Ergon Energy does not object, in principle, to reporting information in relation to network planning and demand management issues it considers that given the current MCE consultation process and the existing jurisdictional reporting requirements there is a real risk of duplication and inconsistency of regulatory requirements with associated costs to DNSPs.

Ergon Energy considers that the AER should defer consideration of network planning and demand management information requirements until the MCE has finalised its consultation process. This would safeguard against any duplication in reporting requirements.

That said, Ergon Energy also makes the following specific comments regarding the proposed information requirements detailed in the Issues Paper:

- the requirement to detail the demand management payments of DNSPs will undermine a DNSPs ability to negotiate with proponents of non-network alternatives and is not supported; and
- in Queensland the Demand Management Incentive Scheme will consist of an Innovation Allowance that is to be assessed on an ex-post basis. Ergon Energy notes that any reporting requirements must take into account that reporting is ex-post.

7 Timing

7.1 Implementation of the RIO

Does the implementation of the RIO for all relevant jurisdictions from the first regulatory control year following the release of the RIO present particular issues for DNSPs?

The proposed timing for the implementation of the RIO, in its current proposed form, raises significant issues for Ergon Energy.

The RIO introduces substantial new reporting requirements above those currently required by the jurisdictional regulator. Compliance with the reporting obligations under the RIO would require investments in new systems. Given this, Ergon Energy considers that a timeframe of 4 months to implement systems to capture and report the required information commencing 2009-10 would be extremely difficult to achieve.

In addition, if the RIO is published in its current form Ergon Energy believes with the timeframe for implementing system and process changes it would be unable to meet AER's requirements until mid Regulatory period (2012-13).

7.2 Back-Casting Templates

Are the proposed backcasting templates for capex and opex appropriate for the AER's upcoming distribution determinations?

Ergon Energy has significant reservations about providing back-cast data as required in the Capex and Opex Back-Casting templates and would not be able to provide this data without incurring prohibitive costs in recasting and reworking the data. Ergon Energy notes that there is no requirement in the NER for historical (back-cast) data to be provided on an annual basis, and therefore questions the necessity to provide back-cast Capex and Opex data annually.

In addition, Ergon Energy faces significant challenges in providing some of the back-cast data requested. While historical Capex data in the format required is available, Ergon Energy has historically not reported on the data required in Table 3 of the Opex back-casting template and consequently such data is not available.

Furthermore, future changes to reporting requirements and definitions will require all previously reported back-cast data to be recast to match the new requirements and definitions, which would impose an additional overhead for DNSPs for no material value to the DNSP or customers.

Consequently, Ergon Energy does not support the annual requirement to provide back-cast Capex and Opex data as requested in the Capex and Opex backcasting templates.

8 Other matters

8.1 Compliance Costs

What are the benefits of issuing the RIO? What are the costs? Do the benefits outweigh the costs?

Ergon Energy acknowledges the need to transition to a national information reporting framework and accepts that there will be associated costs. That said, Ergon Energy considers that the level and scope of information required under the proposed RIO goes beyond what is reasonably required and will result in Ergon Energy incurring significant costs in terms of system development and implementation.

In terms of benefits from the transition, Ergon Energy considers that these are not likely to accrue to itself. A 'consistent and transparent national reporting approach' is likely to benefit the AER in terms of the execution of its regulatory functions and consequently may benefit network users. Benefits to DNSPs are likely to be limited to those DNSPs that operate across jurisdictions and are currently subject to different reporting requirements in those jurisdictions.

8.2 Assurance Requirements

Are the AER's proposed assurance requirements suitable?

Ergon Energy is of the view that a "Report of factual findings from agreed-upon procedures" is the appropriate form of regulatory assurance, for the purposes of satisfying the RIO. An example of which is included in the Issues Paper in Appendix C on page 32. An increased level of assurance would require significant duplication of audit effort, as regulatory statements are based on a different asset base to the statutory statements. An agreed-upon procedures review would be able to target specific issues requiring independent assurance including the roll forward of the Regulatory Asset Base and the application of the Cost Allocation Method.