

GAAR 2013-2017

Submission Assurance Plan

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Director, Regulation and Network Strategy on behalf of Steering Committee.		30 March 2012

Revision History

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0.1	17 March 2011		Document created	(C-I-C)
0.2	16 November 2011	Section 3 Section 4	Independent adviser SP AusNet internal models	(C-I-C)
	16 November 2011	Appendix 1	Update to financial models	(C-I-C)
1.0	17 February 2012	Approval Section 2.1, Table1 Table 2, Appendix 1 & 2	Noting approval by Steering Committee of due diligence process. Minor updates to reflect final RIN and timing of Quality assurance processes.	(C-I-C)
1.1	30 March	All	Final	(C-I-C)

Review Record

The following stakeholders have reviewed this document:

Stakeholder Name:	Title:
(C-I-C)	Director, Regulation and Network Strategy
(C-I-C)	Gas Asset Owner
(C-I-C)	Director Network Engineering
(C-I-C)	Finance Manager, Networks Strategy Development

References

The following documents are referred to in this document:

Document Name:

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1. Document Purpose

The purpose of this document is to provide an overview of the Models which have been developed for SP AusNet's GAAR 2013-2017 Submission and the processes used to ensure that the data is analysed, reviewed and finalised appropriately. This document provides information on the following:

- Consultant Scope and Responsibilities
- Internal Models developed for the Proposal
- Internal Model Owners and Reviewers, and
- Review Timelines for the Models

1.1 Background

The GAAR is conducted to set the price controls to apply for the use of the gas distribution system over a five year regulatory period. The previous GAAR was conducted for years 2008-2012 with a Determination released by the Essential Services Commission (the Commission). This responsibility has now been passed to the Australian Energy Regulator (AER) for the next regulatory period 2013-2017. In developing the models that support the Submission, a number of independent review processes are involved to ensure a compliant and compelling outcome.

The objective of the Submission Assurance Plan is to provide detailed information on the consultancies involved in the development of the GAAR models that support the Proposal, and to provide an outline of assurance processes.

It is important that all necessary steps are undertaken in gathering, documenting and ensuring that the information provided in the Submission to the AER is:

- Fully reviewed, complete, compliant, and
- Relevant, accurate and fit for purpose.

2. AER Revenue Building Block Requirements

2.1 Regulatory Information Notice

The AER will release a RIN (Regulatory Information Notice) to the Gas Distribution Networks, prior to submission of their Proposals. The information required by the AER is determined by the activities undertaken by the DBs during the regulatory period.

On 13th February 2012, the AER served a Final Regulatory Information Notice (RIN) to Victorian Distribution network service providers for the purposes of the Victorian GAAR 2013-2017 review. The information below is from the AERs letter (13th February 2012) to the SPI Networks (Gas) Pty Ltd (CAN 086015036) business. The letter provides an outline of the RIN requirements.

“This notice sets out the requirements that must be complied with and the information that must be provided to the AER and be prepared and maintained by SP AusNet for the purposes of the AER determining whether to approve SP AusNet’s forthcoming access arrangement proposal in respect of the pipeline services it provides by way of a covered pipeline in Victoria”.

Pursuant to sections 48(1)(a) and 55 of the NGL the AER requires SP AusNet to:

(a) provide in writing the information specified in Schedule 1 to this notice;

(b) prepare and maintain the information in the manner and form specified in Schedule 2 to this Notice; and

(c) verify by way of a statutory declaration, the information specified in this Notice in accordance with Appendix B to this Notice.

And deliver the said information specified electronically to vicGAAR@acc.gov.au on or before 5.00pm on 30 March 2012.

Pursuant to section 53(1)(c) of the NGL, the reasons for the information required in this Notice to be provided and to be prepared and maintained in the manner and form specified are set out at Appendix C to this Notice”.

2.2 Roll Forward Model

Rule 72 (1)(b) requires that:

“The access arrangement information for a full access arrangement proposal (other than an access arrangement variation proposal) must include ...how the capital base is arrived at and, if the access arrangement period commences at the end of an earlier access arrangement period, a demonstration of how the capital base increased or diminished over the previous access arrangement period”.

Further, Rule 72 (1)(c) requires that:

“The access arrangement information for a full access arrangement proposal (other than an access arrangement variation proposal) must include....the projected capital base over the access arrangement period, including:

- (i) a forecast of conforming capital expenditure for the period and the basis for the forecast; and*
- (ii) a forecast of depreciation for the period including a demonstration of how the forecast is derived on the basis of the proposed depreciation method”*

Further, Rule 77 (2) outlines the detailed requirements underpinning the roll forward of the regulatory asset base, “if an access arrangement period follows immediately on the conclusion of a preceding access arrangement period”, whilst Rule 78 outlines the requirements for projecting the capital base for the forthcoming regulatory control period.

To comply with the aforementioned requirements, SP AusNet has developed a model that outlines the method that it has used to calculate the regulatory asset base (RAB) from the beginning of one regulatory period to the beginning of the next period, as well as from year to year within each period. The RAB values from the RFM form inputs into the PTRM, where they are used to determine the return of and on capital of the regulated business.

2.3 Post Tax Revenue model

Rule 72 (1)(m) requires that:

“The access arrangement information for a full access arrangement proposal (other than an access arrangement variation proposal) must include ... the total revenue to be derived from pipeline services for each regulatory year of the access arrangement period.”

Rule 76 requires that “total revenue is to be determined for each regulatory year of the access arrangement period using the building block approach”. It further states that the building blocks are:

- (a) a return on the projected capital base for the year; and
- (b) depreciation on the projected capital base for the year; and
- (c) if applicable – the estimated cost of corporate income tax for the year; and
- (d) increments or decrements for the year resulting from the operation of an incentive mechanism to encourage gains in efficiency; and
- (e) a forecast of operating expenditure for the year.

To facilitate the delivery of the required information on ‘Total Revenue’, SP AusNet has utilised the Post Tax Revenue Model (PTRM), which is a spreadsheet model which is used by the AER to determine the allowed stream of future revenues of a regulated business in each year of the regulatory period. Consistent with Rule 76, these allowed annual revenues need to be sufficient to recover the return on capital, a return of capital, operating expenditure and tax payable. In this way, the PTRM ensures that the allowed annual revenue stream is equal to the annual expenditure stream of the regulated business.

3. Independent Advice & Scope

SP AusNet has engaged a number of independent advisers to assist in the analysis, review and provision of data for the GAAR 2013-2017 Proposal. Advisers have been selected based on key criteria including the provision of specific skills, data and knowledge for input to SP AusNet’s Submission. The table below (Table 1) outlines the adviser, inputs, scope and SP AusNet’s key contact.

Table 1.

Adviser	Input	Summary scope of role	Internal Key Contact
CIE	Volume Forecasts Customer Number Forecasts	Engaged independently by SP AusNet. CIE has been provided with Billing data for analysis, and they will provide SP AusNet with	(C-I-C)

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Adviser	Input	Summary scope of role	Internal Key Contact
		customer number and gas usage forecasts.	
SKM	Material Price Escalators	Material cost escalators used to support forecast capital (and materials within opex) expenditure forecasts for the Regulatory Period.	(C-I-C)
Economic Insights	Rate of Change Productivity Forecasts	Engaged jointly by DBs to develop forecasts of the impact of increased customer and energy throughput on operational costs. Also proposing a reasonable benchmark productivity trend to apply to opex adjusted for scale and input prices.	(C-I-C)
BIS Shrapnel	Labour Forecasts	Engaged Jointly by the DBs for the purposes of producing a Real Labour Cost Escalation Forecast. This will be used to escalate SP AusNet's labour opex forecasts.	(C-I-C)
AIA Study	UAFG	AIA was appointed SP AusNet in 2011 to determine the main sources of UAFG on the SP AusNet gas network.	(C-I-C)
Oakley Greenwood Internal	LRMC & Tariffs	Oakley Greenwood were appointed to assist in the internal development of the internal Long Run Marginal Cost Modelling.	(C-I-C)
Harding Katz (HK)	Compliance with NER Drafting Assistance	Complete assessment of the compliance of SP AusNet's submission with the National Gas Rules and the RIN. H&K are also providing drafting support.	(C-I-C)
E&Y	Review of RFM Model; PTRM Model and Capex Model.	Have been appointed to verify the logic and function of the Roll Forward Model, the PTRM and the Capex model; including verifying the source inputs.	(C-I-C)

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Adviser	Input	Summary scope of role	Internal Key Contact
Deloitte	Review consistency of the historic spend with the National Gas Law. Review of IT strategy.	Assistance in demonstrating that historical IT capex conforms with the National Gas Law and Rules. Assistance in articulation of the IT strategy.	(C-I-C)
AECOM	Review of Historical Network Capex for consistency with the National Gas Law	Assistance in demonstrating that historical Network capex conforms with the National Gas Law and Rules	(C-I-C)
CSIRO	Climate change impact on Gas demand Forecasts.	The three DBs are seeking independent advice as to the likely continued effects of Climate Change on the weather EDDs that drive Gas demand Forecasts.	(C-I-C)

4. SP AusNet Internal Models

The following table outlines the key internal models that have been developed, along with the quality assurance function and timing associated with the quality assurance function.

Table 2

Owner	GAAR Model	Quality Assurance	Process and Timing
(C-I-C)	PTRM Calculates SP AusNet's total revenue requirement and subsequent unit prices Roll Forward Model Calculates SP AusNet's RAB to be incorporated in the PTRM model	E&Y E&Y	January 2012 January 2012
(C-I-C)	Opex Model Calculates SP AusNet proposed opex expenditure to feed into PTRM for next regulatory period	Oakley Greenwood	December 2011

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Owner	GAAR Model	Quality Assurance	Process and Timing
(C-I-C) (Please note allocation of responsibilities in Appendix 3)	<p>RIN</p> <p>The information required by the AER will be outlined in a RIN. This will be determined by the functions performed by the DBs during the regulatory period</p>	<p>(C-I-C) to assess regulatory implications of outputs of RIN</p> <p>Population of RIN templates (tables) as agreed between Regulatory and Finance</p>	<p><u>Draft RIN</u></p> <p>December</p> <p>2011- January 2012 (DRAFT RIN)</p> <p><u>Final RIN</u></p> <p>February 2012</p>
(C-I-C)	<p>Capex Model</p> <p>Capital expenditure forecasts for regulatory period based on:</p> <ul style="list-style-type: none"> • Unit capex rates • Escalators • Volume of work to be undertaken • Capitalised overhead rates 	E&Y	January 2012
(C-I-C)	<p>Tariff Modelling</p> <p>LRMC Model</p> <p>Model to calculate the LRMC, to demonstrate compliance with Rule 94(4)(a)</p> <p>Stand Alone / Avoidable Cost model</p> <p>Model to calculate the standalone and avoidable cost of providing services to different tariff classes, which is required in order to demonstrate compliance with Rule 94(3)(a) and (b)</p>	(C-I-C)	January 2012

5. Quality Assurance & Information Management Process

5.1 Due Diligence Report

A Due Diligence Report will be prepared for the endorsement of the Steering Committee and will then be available; once endorsement has been achieved, to the Subsidiary Board of Directors for final approval and sign-off. This Report outlines the processes utilised to ensure that the assumptions, forecasts and data populated in the Regulatory Information Notice (RIN), which support SP AusNet's Proposal, have been presented in an accurate, relevant, quality controlled manner.

5.2 Document Matrix (Appendix 2)

A Document Matrix will be compiled to provide a detailed list of all documentation supporting the Submission. This matrix will be used to ensure that all documents and data sets are properly versioned, reviewed and approved. This list will be used as a quality control standard for all supporting information provided to the Regulator as part of the GAAR 2013-2017 Submission. Appendix 2 provides a list of internal documents only.

5.3 Version Control

Standard version control processes will apply to all GAAR 2013-2017 working and final documents. Working copies and final copies will be differentiated by version numbers as follows:

- Working and Drafts: 0.1–0.9, 1.1–1.9
- Final: 1.0, 2.0

Final Documents will also be produced as a hardcopy and filed. Hardcopies will also have signatures of the document approvers.

5.4 Backup of Data

Backups of models and relevant submission documents will be required daily to ensure that current copies will always be available during the course of the project. The GAAR 2013-2017 Project Management area will be responsible for making copies of data that is on the central directory, however any documents that are being developed by business areas or in working folders managed by individuals will be required to be backed up by the owners of those documents.

5.5 Reducing Risk of File Corruption

To reduce the risk of data corruption in GAAR documentation; images and pictures should be checked for both size and type before copying into submission working documents. Images and pictures can often cause files to corrupt if they are too large or are in a different format.

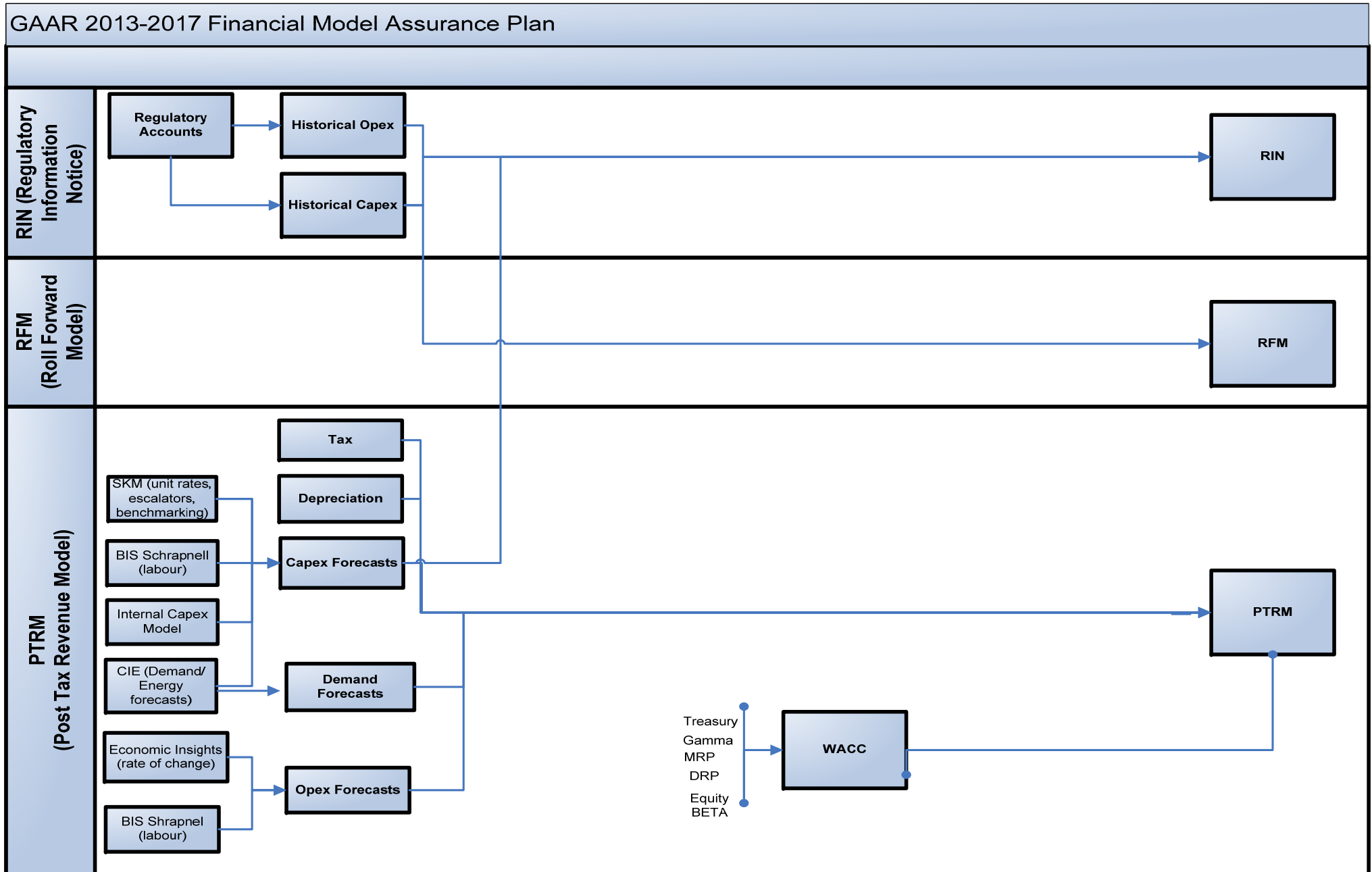
5.6 Confidentiality

Where consultancies have been engaged by the Joint DBs (where the engagement is being managed by one DB on behalf of the others) confidentiality is the responsibility of the DB engaging the consultant.

Documents that are deemed confidential for Submission purposes will be

1. Watermarked where possible with “Confidential”, clearly marked as such and listed as confidential
2. Listed on a document (Register) provided to the Regulator as part of the Submission
3. Stored in a secure directory marked and password protected.

Appendix 1 – GAAR 2013-2017 Financial Models



Appendix 2 - Internal Document Matrix

Letter	Type	Document Title	Confidential	Chapter	Responsibility	Expected Final Date
A1	Word	Related Parties Arrangements	Y	2	(C-I-C)	26 Mar 12
A2	Word	ICT Strategy (CY2013-2017) Gas Distribution Network	Y	5	(C-I-C)	22 Mar 12
A3	Word	SP AusNet Electricity Distribution Cost Allocation Method	N	5 and 6	(C-I-C)	Dec 10
A4	Word	Plant & Network Strategies: <ul style="list-style-type: none"> • Transmission Pipelines Strategy (AMS-30-50) • Regulating Facilities (Network) Strategy (AMS 30-51) • Mains and Services Strategy (AMS 30-52) • Regulating Facilities (Customer) Strategy (AMS 30-53) • Meter Management Strategy (AMS 30-54) • Exposed Pipework Strategy (AMS 30-55) • Corrosion Protection Strategy (AMS 30-56) • SCADA Strategy (AMS 30-57) • Network Capacity Strategy (AMS 30-17) 	Y	5	(C-I-C)	16 Mar 12
A5	Word	Meter Management (unit rates & program smoothing) discussion paper	Y	5	(C-I-C)	22 Mar 12
A6	Word	Customer Connections unit rate discussion paper	Y	5	(C-I-C)	22 Mar 12

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Letter	Type	Document Title	Confidential	Chapter	Responsibility	Expected Final Date
A7	Word	Network Step changes paper	Y	6	(C-I-C)	26 Mar 12
A8	Word	National Energy Customer Framework Business Case	Y	6	(C-I-C)	16 Mar12
A9	Word	Asset Management Strategy	Y	5	(C-I-C)	20 Mar12
A10	Word	Capitalisation Policy Directive	Y	6	(C-I-C)	20 Mar12
A11	Word	Gas Asset Management Plan	Y	2, 3, 5, 6, 10	(C-I-C)	15 Mar12
A12	Word	Gas Maintenance Plan	Y	6	(C-I-C)	15 Mar12
A13	Word	Gas Safety Case	N	2, 3, 5, 6, 10	(C-I-C)	8 Mar12