

7 October 2008

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

Dear Mr Pattas

Electricity Distribution Network Service Providers Annual Information Reporting Requirements

I refer to the AER's Issues Paper "*Electricity distribution network service providers - Annual information reporting requirements*" issued in August 2008.

Integral Energy is supportive of ensuring that the AER is provided with information that is both necessary and sufficient to enable the AER to carry out its legislative functions. In its Issues Paper, the AER states that it intends to use Section 28F of the National Electricity Law (NEL) to make a general Regulatory Information Order (RIO) for distribution network service providers (DNSPs).

Integral Energy's detailed comments on the RIO are provided in Attachment A for your consideration. In summary:

- The AER's proposed RIO seeks a considerable level of detailed information that is not obviously required for annual compliance reporting purposes, but would reasonably be required to assist the AER to conduct its assessment of a regulatory proposal. Integral Energy seeks a clear articulation of the legislative function that the information is intended to address and a delineation between the information required for annual reporting requirements and the five yearly regulatory proposals;
- The information agreed between the AER and the NSW/ACT businesses in developing the 2009-14 Regulatory Information Notice (RIN) templates appears not to have been reflected in the proposed RIO templates. The development of the RIN templates occurred over many months through a consultative approach and forms a sound basis for information collection to apply nationally;

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- The AER proposes that DNSPs provide working papers to support the annual regulatory financial statements. Integral Energy considers such a requirement to be excessive and unnecessary as a review of the working papers would form part of any assurance process;
- Much of the network planning and demand management information sought by the AER is already published on an annual basis by Integral Energy as part of its Electricity System Development Review required under its distribution licence. As such, while Integral Energy does not see anything onerous in what is proposed, we are concerned that the requirement to re-cast existing information into a new template for AER RIO purposes is unnecessary and that the AER is encouraged to adopt existing reporting requirements;
- Integral Energy seeks confirmation that the requirement to provide information in the back casting templates only applies to the five year regulatory proposal and does not form any part of annual reporting requirements; and
- Integral Energy considers that the current agreed upon procedures assurance process for the annual regulatory statements is appropriate and should provide the necessary comfort to the AER that the information provided aligns to the statutory accounts. A more extensive assurance process, including an audit report on a special purpose financial report or a positive assurance audit, would significantly increase the compliance costs associated with regulatory reporting for little, if any, discernable benefit to customers.

Should you have any questions in relation to this matter please contact our Manager, Regulatory and Pricing, Mr Mike Martinson on telephone (02) 9853 4375.

Yours faithfully



Vince Graham

Chief Executive Officer

Attachment A – Integral Energy's detailed responses

Attachment A

This attachment provides Integral Energy's detailed comments with respect to the AER's Issues Paper "*Electricity distribution network service providers - Annual information reporting requirements*" issued in August 2008, and addresses the following matters:

- The basis and policy objectives of the Regulatory Information Order (RIO);
- Annual or Five-Yearly Provision of Information;
- Annual reporting templates;
- Working papers;
- Asset schedules and supporting papers;
- Service performance information;
- Other information requirements;
- Back casting templates; and
- Assurance Requirements

The following sections address the above matters in turn.

The basis and policy objectives of the Regulatory Information Order (RIO)

In its Issues Paper, the AER states that it intends to use Section 28F of the National Electricity Law (NEL) to make a general RIO for distribution network service providers (DNSPs).

The RIO is intended to set out the manner and form in which a DNSP should submit information annually to the AER in relation to its direct control and negotiated distribution services. The Issues Paper states that through the RIO, the AER will be seeking to:

1. Obtain specific information so the AER can adequately understand each business it is regulating;
2. Monitor and report on and enforce DNSP's compliance with the AER's regulatory decisions, including annual regulatory processes arising from these decisions; and
3. Monitor and enforce DNSP's compliance with the approved cost allocation method.

Integral Energy is supportive of ensuring that the AER is provided with information that is both necessary and sufficient to enable it to carry out its functions. However, Integral Energy is concerned that the AER, other than at a very high level, has not demonstrated the need for much of the information being sought annually. In particular, the AER seeks detailed expenditure information, backcast information and planning data that more appropriately could be provided during each five year reset process.

While it is recognised that there is a balance to be struck on level of detail to be provided, the AER appear to have taken an information intensive approach that seeks information through the proposed RIO and templates that management requires to run the business, but that is not required for the AER to conduct its legislative functions.

It is also not apparent that the changes agreed between the AER and the NSW/ACT businesses in developing the 2009-14 Regulatory Information Notice (RIN) templates have been reflected in the proposed RIO templates. The development of the RIN templates occurred over many months through a consultative approach, with the resulting templates forming a sound basis for information collection to apply nationally. Any move away from the RIN templates as the basis for a nationally consistent framework should not occur without justification as to why they are not appropriate.

Annual or Five-Yearly Provision of Information

As stated in the Issues Paper, the information obtained through the RIO process will complement the information that DNSPs must provide as part of the five year regulatory proposal process and which will be the subject of a separate Regulatory Information Instrument (RII). It is important therefore, for the AER to clearly demonstrate how the RIO will allow it to satisfy the requirements outlined above.

In particular, the AER's proposed RIO seeks a considerable level of detailed information that is clearly not required for annual compliance reporting purposes, but would reasonably be required to assist the AER conduct its assessment of a regulatory proposal. There needs to be a clear articulation of the nature of the function or a clear mapping of functions to the information required to meet the annual reporting obligations and functions. There also needs to be a clear delineation between the annual reporting requirements and the five yearly regulatory proposals.

Integral Energy notes that this issue has also been raised by the Energy Networks Association in their submission and Integral Energy supports the recommendations contained in that submission.

Annual reporting templates

Capital expenditure

Integral Energy's current Chart of Accounts facilitates the splitting of capital expenditure between:

- Network extensions, increased load management, renewal/replacement and service improvement;
- Sub-transmission, distribution HV and distribution LV; and
- Lines and cables, substations and transformers, buildings land and easements.

This is based on the fact that the cost drivers generally reflect one or more of Integral Energy's Strategic Asset Management Plan categories.

The Chart of Accounts does not however, facilitate separate reporting between:

- Overhead and underground; and
- CBD, urban, rural short and rural long.

Integral Energy would need to undertake changes to the Chart of Accounts and information systems and process to record such information. The estimated cost of undertaking such changes is not known at this stage.

Integral Energy currently defines and reports against the network types such as CBD, urban, rural short and rural long based on the NSW Design, Reliability and Performance (DRP) Licence Conditions dated 1 December 2007. Integral Energy does not have any network segments that meet the CBD definition in the DRP Licence Conditions. However, it is noted that the proposed definition for CBD in the RIO could mean that feeders in areas such as Parramatta, Liverpool and Wollongong would be classified as CBD feeders.

This would create an inconsistency between the reporting to the NSW Department of Water and Energy (DWE) and the reporting to the AER. Integral Energy would recommend that the AER align the two definitions of CBD feeder. At this point in time Integral Energy has only one feeder that satisfies the long rural definition. The network types are only applied to high voltage distribution feeders, that is, those feeders operating above 1000V and at or below 22,000V. Feeders operating above 22,000V are not classified into these network types.

Operating expenditure

Integral Energy can provide the operating expenditure broken down into some of the categories in the operating expenditure template but we do not record expenditure by sub-transmission, HV and LV.

As for capital expenditure, Integral Energy does not record operating expenditure by the various network types. That is, CBD, urban, rural short and rural long.

Material projects and programs

Integral Energy believes that providing annual reporting on major projects and programs is not required as part of the annual compliance check function of the AER. Many major projects and programs will extend over a number of years of a regulatory period which makes an annual expenditure report irrelevant. Integral Energy considers that it would be more appropriate to provide this type of information as part of a RII when lodging a five year regulatory proposal.

Integral Energy is concerned that the proposed RIO and accompanying templates are not conceptually consistent with an ex ante capex and opex framework. As the ex ante allowances do not relate to a specific suite of projects or opex categories, Integral Energy considers that it is conceptually inconsistent to require annual reporting against a specific suite of capex projects or opex categories at any level of detail outside the 5-yearly regulatory proposal process.

Working papers

In Section 2.5 of the Issues Paper the AER proposes that DNSPs are to provide cost allocation and disaggregation working papers to support the regulatory financial statements.

Integral Energy considers such a requirement is not necessary as a review of the working papers would form part of any assurance process and provision of the working papers would not assist the AER to perform any of its function or obligations. The reported figures are the end result of the application of the Cost Allocation Methodology (CAM). While working papers will allow the AER to test the arithmetic accuracy of any regulatory adjustments, they will not meet the AER's stated requirement to ensure that the CAM has been applied correctly.

Integral Energy recommends that the requirement to provide cost allocation and disaggregation working papers be removed from the RIO.

Asset schedules and supporting papers

Network characteristics

Integral Energy does not collect any data on customers, line length etc broken down into the various network types of CBD, urban, rural short and rural long. As stated above, the network types of CBD, urban, rural short and rural long are only applied to high voltage distribution feeders, that is, those feeders operating above 1000V and at or below 22,000V. Feeders operating above 22,000V are not classified into these network types.

Service performance information

Integral Energy has been advised of the proposed annual Service Target Performance Incentive Scheme (STPIS) data reporting requirements to apply to Integral Energy during the 2009-14 regulatory control period.

Integral Energy has raised a number of issues and concerns in relation to the proposed annual reporting requirements specifically related to service performance and these have been separately documented in a letter to the AER dated 25 September 2008.

Integral Energy would expect that the proposed STPIS data reporting requirements will align with the current DWE reporting.

Table 4 Breakdown of unplanned interruptions by category

With the transfer of the regulation of distribution entities from local jurisdictions to a national regulator, the ENA recognised that it would be of benefit to its members and the national regulator to pro-actively formulate a set, or toolbox, of harmonised and clearly defined reliability reporting measures.

Subsequently the ENA's Reliability and Power Quality Committee were commissioned to develop a set, or toolbox, of nationally consistent high level reliability performance cause codes.

These developed cause codes are supported by clear definitions that ensure consistent interpretation across distributors and jurisdictions and allow for appropriate reporting and targeted activities in the pursuit of providing opportunity for improvement of the network's performance.

Through this cause code toolbox a consistency will be achieved which will also potentially reduce the reliance on the unknown/unclassifiable cause code category.

The ENA is expected to provide further information on this body of work to the AER in November 2008.

Other information requirements

Network planning and demand management

The majority of the information detailed in the Issues Paper is already published on an annual basis by Integral Energy as part of the Electricity System Development Review. As such Integral Energy does not see anything onerous in what is proposed in the Issues Paper but is concerned at the requirement for the DNSPs to re-cast this existing information into a new template for AER RIO purposes. This would be an unnecessary duplication of an existing process with no clear benefit and Integral Energy would encourage the AER to adopt existing reporting requirements.

Back casting templates

In the Issues Paper the AER state that:

".....schedules 6.1.1(6) and 6.1.2(7) of the NER respectively require DNSPs to report historic capex and opex for the two previous regulatory periods categorised in the same manner as their forecast as part of the building block proposal."

It is clear from the Issues Paper that the provision of information in the back casting templates only applies to the five year regulatory proposal and does not form any part of annual reporting requirements.

Integral Energy would recommend that the AER remove this section from the RIO. It would be more appropriate to include the template in the RII issued for each DNSP's regulatory proposal.

Assurance Requirements

Based on the Issues Paper it appears that the AER is favouring an audit report on a special purpose financial report. Integral Energy has some serious concerns with this proposed approach both as to the cost of providing such a report and also the duplication of work required to achieve it. It is recognised that it is not possible to develop estimates of costs at this stage as no firm decisions have been made and the work required has not been fully scoped.

Integral Energy's financial statements are audited by the NSW Audit Office. In the past, the NSW Audit Office has advised Integral Energy that it is not able to undertake audits of regulatory accounts and will not make available access to its audit papers to any other external auditor engaged by Integral Energy. This means any external auditor engaged by Integral Energy to provide an audit report on a special purpose financial report will need to establish a starting point and would have to duplicate the work undertaken by the NSW Audit Office. This is inefficient and will introduce delays in the process and add unnecessary costs.

Integral Energy's preferred approach would be a report of factual findings from an agreed upon procedures review. Given that the regulatory accounts have to reconcile with the audited financial statements, a report of factual findings would appear to be the most cost effective way of providing the assurance that the AER is seeking.