



Issues Paper

Electricity distribution network service providers

Annual information reporting requirements

August 2008

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Request for submissions

Interested parties are invited to make written submissions to the Australian Energy Regulator (AER) on the issues discussed in this paper by the close of business Monday 22 September 2008. Submissions can be sent electronically to AERInquiry@ aer.gov.au.

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The AER prefers that all submissions be in an electronic format and publicly available, to facilitate an informed, transparent and robust consultation process. Accordingly, submissions will be treated as public documents and posted on the AER's website, www.aer.gov.au except and unless prior arrangements are made with the AER to treat the submission, or portions of it, as confidential.

Any enquiries about this issues paper, or about lodging submissions, should be directed to the AER's Network Regulation South Branch on (03) 9290 1444 or at the above email address.

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Shortened forms

AER	Australian Energy Regulator
capex	capital expenditure
DNSP	Distribution Network Service Provider
EBSS	Efficiency benefit sharing scheme
NEL	National Electricity Law
NEM	National Electricity Market
NER	National Electricity Rules
opex	operating expenditure
PTRM	post-tax revenue model
RIO	regulatory information order
RAB	regulatory asset base
RFM	roll forward model
SCONRRR	Steering committee on national regulatory reporting requirements
STPIS	Service target performance incentive scheme
TNSP	Transmission Network Service Provider

1 Introduction

1.1 Background

The AER is responsible for the economic regulation of distribution network service providers (DNSPs) in the National Electricity Market (NEM), in accordance with the National Electricity Rules (NER) and the National Electricity Law (NEL). The AER is required to exercise its powers in a manner that will or is likely to contribute to the achievement of the national electricity objective which is stated in section 7 of the NEL.

The AER intends to publish a regulatory information order (RIO) under the NEL setting out a nationally consistent framework for annual information reporting by DNSPs. The RIO for annual information reporting (the RIO) will set out general guidance and protocols underlying the annual collection of information and is envisaged to be published in February 2009. The RIO is similar in purpose and content to the annual information reporting guidelines for transmission network service providers (TNSPs) which the AER was required to publish in accordance with clause 6A.17.2 of the NER.

The AER considers that publication of the RIO, including the annual reporting templates, will contribute to the achievement of the national electricity objective by providing the AER with the information it reasonably requires to carry out its regulatory functions. The AER will use the information to be collected under the RIO to assist in the assessment of future regulatory proposals by DNSPs and make distribution determinations. Collecting such information annually will enable the AER to assess DNSPs' performance during the course of a regulatory control period leading to enhanced analysis of the data. The information collected will also be used by the AER in its other regulatory functions as set out in section 15 of the NEL, where relevant.

The RIO will contain annual reporting templates to be populated by DNSPs. The templates will report relevant information, including annual expenditure information, to the AER. Appendix A of this issues paper contains the proposed annual reporting templates being developed. The principal aim of this issues paper is to receive feedback from stakeholders regarding these templates.

1.2 The basis and policy objectives of the RIO

The RIO will detail the basis on which DNSPs must provide annual information to the AER during the course of a regulatory control period. Together, the RIO and the regulatory information instruments (RIIs) being developed to cover future regulatory proposals, will specify for DNSPs the information requirements of the AER.

Information obtained from the annual reporting templates is intended to be used to inform the AER's assessment of DNSP's future regulatory proposals. The information provided through the RIO process will complement the information that DNSPs must provide as part of their regulatory proposals (which will be the subject of separate RIIs). DNSPs will be required to provide annual information on the previous

regulatory year using the reporting templates being developed (the proposed versions of which are attached in Appendix A). This will allow the AER to analyse expenditure during the course of a regulatory control period. The template format for reporting historic capex and opex will become the basis for the format of forecast capex and opex templates to be submitted in future regulatory proposals.

To implement the reporting arrangements, the AER intends to use section 28F of the NEL which provides the AER with the authority to make a general RIO for DNSPs.

Under Section 28C, a RIO requires each regulated network service provider of a specified class, or each related provider of a specified class, to do either or both of the following:

- (a) provide to the AER the information specified in the order;
- (b) prepare, maintain or keep information specified in the notice in a manner and form specified in the order.

The RIO will set out the manner and form in which a DNSP should submit annually to the AER information in relation to its direct control and negotiated distribution services. Through the RIO, the AER will be seeking to:

- obtain specific information from DNSPs so that the AER can adequately understand each business that it is regulating. This assists the AER in setting efficient capital and operating expenditure allowances in distribution determinations.
- monitor, report on and enforce DNSPs' compliance with the AER's regulatory decisions, including annual regulatory processes arising from these decisions
- monitor and enforce DNSP's compliance with their approved cost allocation method

The RIO will therefore assist the AER in giving effect to the operation of the national electricity law objective when regulating DNSPs.

The specific types of information proposed and the rationale for collecting this information are discussed below. However, the collection of information through the RIO via the annual reporting templates has the following basic objectives:

- to provide inputs to the AER's assessment of the DNSP's business, expenditure and assets in the lead-up to and during a distribution determination. This will aid the AER in achieving the national electricity objective by providing it with the information it reasonably requires in order to make the constituent decisions it is required to make under the NEL.
- ensure consistency in annual reporting frameworks across jurisdictions. This will aid those DNSPs with networks across different jurisdictions to streamline their annual reporting obligations.
- provide guidance to the AER and consultants as to which aspects of a DNSP's business, expenditure, and/or assets are most appropriate for engineering based (or other) review. This will lead to a more efficient process to streamline and better target the AER's reviews.

As noted above, the RIO will not replace RIIs used for regulatory proposals, but is complementary to these requirements. The regulatory proposal is in a similar form to the proposed RIOs, but RII will collect information that it is not appropriate or cost efficient to collect annually, for instance:

- Forecast and backcast capex and opex information
- Forecast demand for services
- Jurisdiction specific information

1.3 Consultation and development process for the RIO

The release of this issues paper is part of a preliminary consultation process being undertaken by the AER as part of its role as the national regulator of electricity distribution networks. This issues paper is intended to elicit comments from interested parties on how the development of the RIO can best support the transition to a nationally consistent framework for annual information reporting and for the economic regulation of electricity distribution networks more generally.

More specifically, this issues paper aims to elicit comments regarding the format and contents of the proposed annual reporting templates in Appendix A, their suitability for the AER's functions, particularly in regard to the making of distribution determinations, and the ability of DNSPs to report against the templates. To this end, there are questions for stakeholders targeted at particular aspects of the proposed templates.

The AER is undertaking preliminary consultation prior to setting out its proposed or draft positions in relation to the RIO for consultation under the requirements of the NEL. Stakeholders are encouraged to provide submissions during this preliminary consultation and may at this stage want to take the opportunity to address issues of detail.

In considering the development of the RIO for distribution, the AER will have regard to the approach it developed for the information guidelines for electricity transmission networks. The amended chapter 6 of the NER has built on the approach to regulation of transmission networks in chapter 6A of the NER, but has taken into account differences in the nature of transmission and distribution networks. The AER is mindful of these differences and the need to tailor the RIO for the purposes of distribution regulation. The proposed templates have been developed having regard to distribution specific considerations.

Under clause 8.7.3 of the NER, the time period for formal consultation is 80 business days. This timeframe also applies to the formal consultation period for RIOs referred to in section 28H of the NEL, which states that

“The AER must, in accordance with the Rules, consult with the public in relation to the general regulatory information order it proposes to make before it makes that order.”

As part of that future consultation process under the NER, the AER intends to publish the proposed RIO with an accompanying explanatory statement in November 2008, and seek written comments from interested parties.

This issues paper has been prepared by AER staff with input from consultants advising on the development of the RIO for electricity distribution. This issues paper should not be taken as indicating any particular views by the AER in relation to future annual reporting arrangements for DNSPs.

1.4 Process and timing for future consultation

The AER is aiming to publish the RIO in February 2009. This would provide each DNSP with sufficient time to implement its requirements before their next regulatory year following the release of the RIO.

Given this timeframe for the publication of the RIO, the AER anticipates releasing the proposed RIO in November 2008. The AER intends to conduct a public forum to enable interested parties to discuss their views and raise matters directly with the AER. The closing date for submissions on the proposed RIO will be in mid December 2008.

1.5 Relationship to other guidelines and schemes

Under the NER, the AER is required to develop and publish certain models, guidelines and schemes for DNSPs, specifically:

- Post tax revenue model
- Roll forward model
- Cost allocation guidelines
- Efficiency benefit sharing scheme (EBSS)
- Service target performance incentive scheme (STPIS).

On 26 June 2007, the AER published its final decisions on the models, guidelines and schemes referred to above.

Under the RIO, DNSPs will report information directly relevant to the models, guidelines and schemes. For example, DNSPs will be required to provide their results under the STPIS annually. DNSPs will also provide their historic opex performance annually, which is a principal parameter to the EBSS.

1.6 Structure of this paper

This issues paper is structured as follows:

Chapter 2 provides the rationale for issuing the RIO. It discusses the contents and format of the proposed annual reporting templates and raises issues and questions regarding the RIO and the templates.

Chapter 3 outlines other network planning information requirements.

Chapter 4 discusses the timing aspects of the RIO and the proposed backcasting templates.

Chapter 5 discusses other issues, namely compliance costs and assurance requirements.

Appendix A contains the proposed annual reporting templates.

Appendix B contains proposed backcasting templates to be used for distribution determinations.

Appendix C contains examples of regulatory assurance reports

1.7 Next steps

Interested parties are invited to make submissions to the AER regarding this issues paper by the close of business 22 September 2008. These submissions will be published on the AER's website. See pages ii and 4 for details of the consultation arrangements.

2 Proposed information requirements

2.1 Information requirements of the RIO

The RIO is intended to:

- detail the basis on which regulatory financial statements are to be prepared by disaggregating the DNSP's base accounts
- detail general principles relevant to a DNSP's preparation of historic information
- detail the format in which a DNSP must submit information to the AER
- detail the basis on which the AER may require assurance on any information provided to it and the responsibilities of both the DNSP and the auditor in relation to the conduct of any such assurance
- detail the basis on which the DNSP will apply regulatory adjustments to the preparation of the regulatory financial statements
- require a DNSP to provide full and detailed documentation of its regulatory accounting principles and policies
- require a DNSP to comply with any written request by the AER for ad hoc information
- require records to be maintained in support of the regulatory financial statements
- detail the basis on which a DNSP shall apply discretionary headings in its regulatory financial statements
- require information provided by a DNSP to be accompanied by a directors' responsibility statement
- provide guidance for DNSPs on how to complete the AER's pro forma statements
- provide a glossary of terms used.

These information requirements are similar to existing jurisdictional information reporting requirements.

Being regulated network businesses, the annual reporting requirements for DNSPs and TNSPs share the same fundamental objectives. Further, as annual financial reporting must follow generally accepted accounting principles and standards, the AER intends to adopt a similar approach for distribution to that used in transmission for annual financial reporting.

While the Transmission Information Guidelines were considered in preparing this issues paper, differences between DNSPs and TNSPs (including scale, asset types and operations) necessitate the development of separate templates and requirements for DNSPs.

As noted above, these annual reporting requirements are intended to complement the information required to be provided by DNSPs in their regulatory proposals at each review (typically every five years).

2.2 The annual reporting templates – contents and categories

The AER is developing annual reporting templates for DNSPs as part of the RIO. The templates will be in Excel spreadsheet format and will cover the following elements:

- capital expenditure
- operating and maintenance expenditure
- material projects and programs
- regulatory financial statements
- disaggregation statements
- service performance
- pass throughs
- reconciliation of property, plant & equipment
- asset aging schedules
- relationships and expenditures with other entities
- high-level network data.

Proposed examples of the templates have been included in Appendix A.

The following subsections discuss the proposed templates. Questions have also been included to facilitate stakeholder input to this issues paper.

2.2.1 Developing the proposed capex and opex templates

In developing the proposed templates a number of existing arrangements were considered, including templates currently used by DNSPs under their respective jurisdictional arrangements (the jurisdictional templates) and the templates developed by the Steering Committee on National Regulatory Reporting Requirements (the SCONRRR templates)¹. The proposed templates in Appendix A take the features of current jurisdictional and SCONRRR-based reporting into account.

A national reporting template will contain cost categories, definitions and drivers that differ to some extent from the jurisdictional templates. This arises from the differing regulatory regimes that currently exist and the transition required in implementing a consistent national reporting framework. With regard to opex reporting templates, for

¹ The SCONRRR templates were developed by the Utility Regulators Forum in March 2002 with the view of establishing a core set of nationally consistent reporting requirements for DNSPs. The Steering Committee comprised of representatives of jurisdictional and national electricity regulators and relevant departments from NSW, Victoria, ACT, Queensland, Tasmania and South Australia.

example, several jurisdictional templates have focused on reporting *activities* such as “Inspection”, and “Regulatory compliance”, while other templates have focused on opex relating to assets such as “Zone substation” and “Subtransmission”. With 13 DNSPs to regulate the AER is developing a national annual reporting template to capture those aspects of the jurisdictional templates that would most effectively aid it in its functions as outlined in chapter 1 of this issues paper.

The jurisdictional templates contain common cost categories which provide relevant and valuable information to regulators. The inclusion of common cost categories in the proposed templates provides continuity in transitioning to a national reporting framework and helps minimise transition costs to DNSPs. However, the common cost categories in themselves can act only as minimum requirements for annual reporting purposes. Other cost categories are included in the proposed templates as they are considered important to the AER’s regulatory functions, particularly distribution determinations.

2.2.2 Capex

The proposed capex templates were designed to collect information by both:

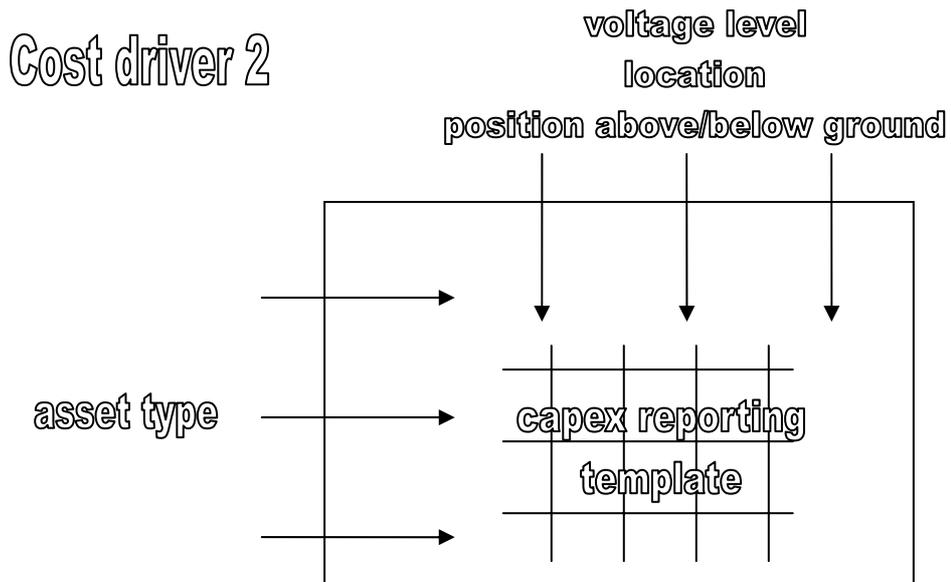
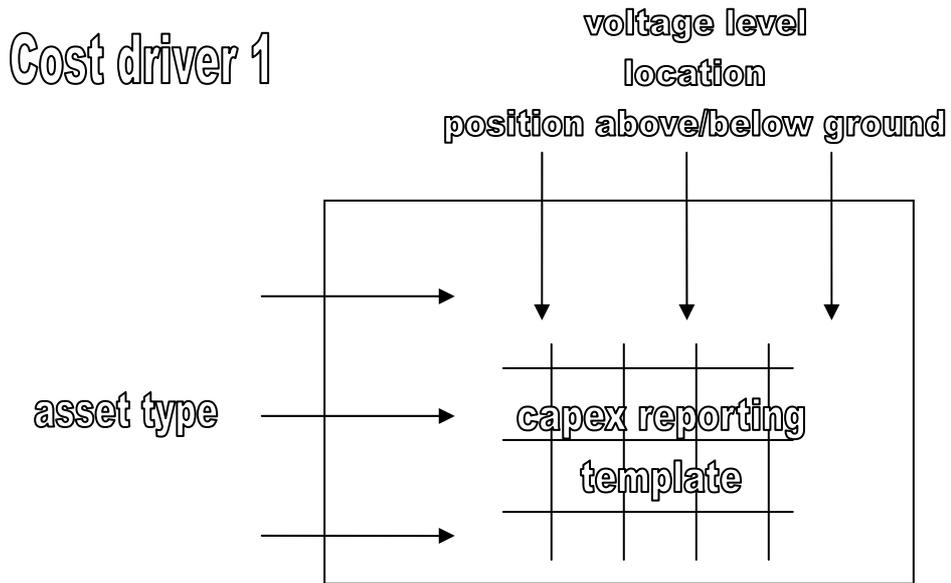
- cost drivers (i.e. new customer connections, ageing asset replacement and improvement of network functionality),
- asset types (eg, lines and cables, substations, communications, buildings).

The proposed templates categorise assets in line with existing jurisdictional practices. Categorising expenditure in terms of asset class also makes the information suitable for input into the PTRM and RFM. The templates use common existing jurisdictional cost categories; they do however subdivide these common cost categories by driver, asset location and voltage level.

The way that the proposed templates have been constructed (by asset type and cost driver) will allow the AER to see the relationships between different drivers of costs and expenditure on different asset types. This will give the AER the capacity to better assess revenue forecasts based upon predicted drivers of costs. The categorisation and sub categorisation of the assets will also allow the AER to both conduct high level assessments of the building block determination as well as detailed analysis of specific expenditure categories.

The proposed capex reporting templates are contained in appendix A, worksheet 2.1. Costs are firstly separated according to cost driver and then further categorised by asset type, position and voltage level. The stylised diagram below illustrates the structure of the capex reporting templates.

Figure 2.1: Structure of the capex reporting templates



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.

2.2.3 Opex

Current jurisdictional templates generally arrange opex into maintenance expenditure, operating expenditure, and other expenditure. This broad classification is retained in the AER's proposed opex templates. The following briefly describes the cost categories included in the opex templates.

Maintenance expenditure

Maintenance expenditure allocates costs according to their location, voltage and whether they are overhead or underground. Maintenance expenditure also requires DNSPs to record sub transmission costs according to an overhead/underground classification. This form of cost categorisation will enable the AER to assess, with the capex template, the condition, age and future expenditure requirements in those locations. This will assist the AER in its consideration of which projects should be the focus of engineering based reviews in a regulatory determination.

DNSPs are also to report on certain maintenance activities in this section of the template (divided into overhead or underground); namely, metering, vegetation management, and public lighting.

Operating expenditure

The cost categories in the proposed opex template are activities-based and are standard operating activities for most DNSPs.

Other expenditure

As with operating expenditure, other expenditure is activities-based and draws largely from existing opex templates.

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.

2.2.4 Material projects and programs

To assist the AER in assessing a DNSP's forecast capital and operating expenditure against the capital and operating expenditure objectives and criteria under clauses 6.5.6 and 6.5.7 of the NEL, the AER requires information on the DNSP's material projects and programs the DNSP forecasts to undertake during the next regulatory control period.

Clauses 6.5.6(e)(5) and 6.5.7(e)(5) state that the AER must have regard to the actual and expected capital and operating expenditure of the DNSP during any preceding regulatory control periods in satisfying itself that the forecast capital and operating expenditures for the regulatory control period reasonably reflect the operating and capital expenditure criteria. Therefore, the AER requires information on material projects and programs the DNSP will undertake in the current regulatory control period (that is, completed projects, those currently underway and those which the DNSP proposes to commence before the end of the current regulatory control period).

The AER intends to collect specific information for projects and programs with cumulative expenditure over their life of greater than 2 per cent of the DNSP's anticipated revenue in the final year of the current regulatory period. It is proposed for programs of an ongoing nature that the materiality threshold will apply to the total expenditure for the program over the relevant regulatory control period.

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?

2.3 Pro forma statements for financial information

In accordance with section 28L(c) of the NEL the AER intends to request that DNSPs provide disaggregated financial statements. This section discusses the pro forma statements for financial information proposed to be included in the RIO. It considers the nature of each pro forma statement and outlines the indicative purposes for which the statements will be used by the AER.

In receiving information from a DNSP relating to its financial, economic and operational performance, the AER will be in a better position to assess the DNSP's efficient costs under the NEL.

It is proposed that DNSPs be required to provide the AER with three regulatory financial statements for their direct control distribution services: an income statement, a balance sheet and a cash flow statement.

2.3.1 Income statement

This pro forma statement will require a breakdown of the DNSP's total revenue, operating expenditure and earnings before interest and tax for its direct control distribution services for the latest regulatory year.

This pro forma statement will assist to:

- provide the AER with a true and fair statement of the DNSP's financial performance for its direct control distribution services for the latest regulatory year
- enable the AER to monitor compliance with the DNSP's approved distribution determination and annual revenue requirement for its direct control distribution services
- enable the AER to assess how each revenue and expenditure item has been allocated to the DNSP's direct control distribution services and whether these allocations have been made in accordance with the DNSP's approved Cost Allocation Method
- inform the AER's decision-making for distribution determinations or other regulatory controls to apply in future regulatory control periods.

2.3.2 Balance sheet

This pro forma statement will require a breakdown of the DNSP's assets, liabilities and equity related to its direct control distribution services as at the end of the latest regulatory year.

This pro forma statement will assist to:

- provide the AER with a true and fair statement of the DNSP's financial performance for its direct control distribution services for the latest regulatory year
- enable the AER to assess how each asset and liability item has been allocated to direct control services and whether the allocations have been made in accordance with the DNSP's approved Cost Allocation Method
- inform the AER's five yearly review of the weighted average cost of capital parameters by providing debt and equity information.
- enable the AER to assess whether the DNSP is able to continue to deliver on the national electricity objective, as is provided for by sections 7 and 16(1)(a) of the NEL.

2.3.3 Cash flow statement

This pro forma statement will require a breakdown of the DNSP's cash flow for its direct control distribution services for the latest regulatory year.

This pro forma statement will assist to:

- enable the AER to assess how each cash item has been allocated to direct control services and whether the allocations have been made in accordance with the DNSP's approved Cost Allocation Method
- provide the AER with a true and fair statement of the DNSP's financial performance for its direct control distribution services for the latest regulatory year, and
- enable the AER to assess whether the DNSP is able to continue to deliver on the national electricity objective, as is provided for by sections 7 and 16(1)(a) of the NEL.

2.4 Disaggregation statements

2.4.1 Disaggregation – reporting by business service segment

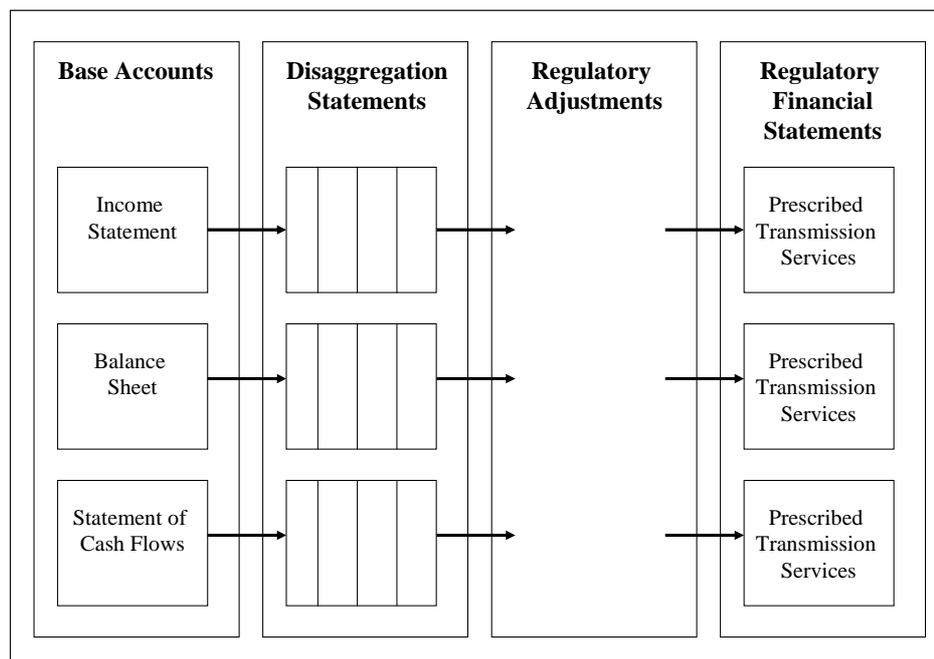
In accordance with section 28L(c) of the NEL the AER intends to request that DNSPs provide disaggregated financial statements. Due to generally accepted accounting standards regulatory financial statements for distribution services should be prepared by disaggregating the base accounts for these services.

As outlined in the diagram below, the general process comprises:

- preparing disaggregation statements from the base accounts and the accounting records that underlie the base accounts
- applying, where necessary, regulatory accounting adjustments to the business segments in the disaggregation statements, to derive regulatory financial statements.

Accordingly, the disaggregation statements, in combination with any regulatory accounting adjustments, provide an audit trail between the regulatory financial statements and the accounting records that underlie the base accounts.

Figure 2.2: Disaggregation statements



It is proposed that DNSPs will be required to provide the AER with three disaggregation statements: an income statement, a balance sheet and a cash flow statement. These statements will further assist the AER in the assessment and compliance processes discussed above.

2.4.2 Income disaggregation statement

This pro forma statement will require a breakdown of the DNSP's total revenue, operating expenditure and earnings before interest and tax between its direct control and negotiated distribution services, non-regulated distribution services and non-allocated items for the latest regulatory year.

2.4.3 Balance sheet disaggregation statement

This pro forma statement will require a breakdown of the DNSP's assets, liabilities and equity related to its direct control distribution services, negotiated distribution services, non-regulated distribution services and non-allocated items as at the end of the latest regulatory year.

2.4.4 Cash flows disaggregation statement

This pro forma statement will require a breakdown of the DNSP's cash flow for its direct control distribution services, negotiated distribution services, non-regulated distribution services and non-allocated items for the latest regulatory year.

2.4.5 Network support pass throughs and cost pass throughs

These pro forma statements will require a DNSP to provide information to the AER in relation to any pass through that has been approved by the AER. This pro forma statement will assist the AER to assess the DNSP's on-going compliance with any pass throughs approved by the AER.

2.4.6 Capital contributions

The AER intends to collect information on capital contributions, prepayments and financial guarantees to monitor compliance with clause 6.21.2 of the NER.

A proposed template for the collection of capital contribution data has been included in Appendix A.

2.5 Working papers

It is proposed that DNSPs will be required to provide the AER with working papers supporting the disaggregation statements and the statements relating to the direct control distribution services.

2.5.1 Causal allocations

This pro forma statement will require details of how each cost item for each account heading that has been the subject of a causal allocation has been allocated in accordance with the DNSP's approved Cost Allocation Method. The pro forma statement therefore needs to be completed as a work paper for each cost that has been allocated between business segments using a causal allocator.

This pro forma statement will assist the AER to monitor, report on and enforce compliance with the DNSP's Cost Allocation Method.

2.5.2 Non-causal allocations

This pro forma statement requires details of how each cost item for each account heading that has been the subject of a non-causal allocation has been attributed in accordance with the DNSP's approved Cost Allocation Method.

This pro forma statement will assist the AER to monitor, report on and enforce compliance with the DNSP's Cost Allocation Method.

2.5.3 Regulatory adjustment journals

This pro forma statement will require a reconciliation of the DNSP's statutory and regulatory accounts for the last regulatory year by detailing the regulatory adjustments that have been made on the income statement pro forma and the balance sheet pro forma.

This pro forma statement will assist the AER to:

- assess whether the certified annual statements give a true and fair statement of the DNSP's financial performance
- enable the AER to assess how each revenue and expenditure item has been allocated to the DNSP's direct control distribution services and whether these allocations have been made in accordance with the DNSP's approved Cost Allocation Method
- inform the AER's decision-making for distribution determinations or other regulatory controls to apply in future regulatory control periods.

2.6 Asset schedules and supporting papers

It is proposed that DNSPs will be required to provide the AER with asset schedules and supporting papers relevant to the disaggregation statements and the direct control distribution services.

2.6.1 Asset disaggregation statement

This pro forma statement will require a summary of gross book value, accumulated depreciation and net book value for a DNSP's property plant and equipment relevant to direct control distribution services, negotiated distribution services, non-regulated distribution services and not-allocated items as at the end of the latest regulatory year.

This pro forma statement will assist the AER to assess the DNSP's regulatory asset base for the purposes of making distribution determinations or other regulatory controls for future regulatory periods.

2.6.2 Property, plant and equipment reconciliation

This pro forma statement requires a reconciliation of the opening and closing values of the DNSP's property, plant and equipment relevant to its standard control distribution services as at the end of the previous regulatory year.

This pro forma statement will assist the AER in assessing the DNSP's regulatory asset base for the purposes of making distribution determinations, in accordance with clause 6.5.1 of the NER.

2.6.3 Asset aging schedule

To assist the AER with its assessment of forecast expenditure against the operating and capital expenditure objectives and criteria detailed in clauses 6.5.6 and 6.5.7 of the NER, the AER requires the DNSP's annual reporting to contain an asset aging schedule.

This pro forma statement will require a breakdown of the value of the DNSP's assets relevant to direct control distribution services, broken down by asset class and remaining useful asset life periods, as at the end of the latest regulatory year.

2.6.4 Network characteristics

The AER intends to collect information on the characteristics of DNSP networks as an input into the assessment of capex and opex forecasts made by DNSPs. High level network information will assist the AER in understanding:

- the particular characteristics of each DNSP's network
- how changes in line length and customer numbers affect capex and opex in each of the different networks

2.7 Relationships and expenditures with other entities

The AER intends to collect information on the relationships and expenditure with other entities of DNSPs, in line with clause 28L (c)(ii) of the NEL.

The operating expenditure criteria and capital expenditure criteria, to which the AER must have regard in assessing a DNSP's forecast expenditure, include a reasonable reflection of the efficient costs of achieving the operating expenditure objectives and capital expenditure objectives.

In considering whether to accept the forecast expenditures submitted by a DNSP, clauses 6.5.6(e)(9) and 6.5.7(e)(9) of the NER require the AER to have regard to the extent the forecast of required capital and operating expenditure of the DNSP is referable to arrangements with other persons that, in the opinion of the AER, do not reflect arm's length terms. The ongoing annual provision of this information will inform the AER in relation to these NER requirements.

To assist the AER with its assessment of the operating and capital expenditure objectives and criteria set out in the NER, information on the relationships that the DNSP has with other entities is required.

2.8 Service performance information

The AER has recently published a Service Target Performance Incentive Scheme (STPIS) as required under clause 6.6.2(a) of the NER.

A template for the reporting of service target performance information is included within the annual reporting template. It is proposed that the information collected for the annual processes required by the STPIS (eg determining the s-factor) and future development of the scheme will be collected through the RIO. In developing the reporting arrangements for service performance information, assurance arrangements will also be considered by the AER. Assurance arrangements in respect of financial information provided through the RIO are discussed in section 5.2 of this paper.

In developing the STPIS the AER set out that it would consider collecting additional information on a range of service performance measures for the purposes of public reporting. The AER has included such measures for consideration in the proposed annual reporting template. These are highlighted in worksheet 7.1 of the proposed annual information reporting templates contained in Appendix A.

The AER welcomes submissions on the proposed information collection pro-forma templates.

3 Other information requirements

3.1 Network planning and demand management

Under the NER, DNSPs must provide an operating and capital expenditure proposal which meets a number of objectives. The first of these objectives is how the expenditure will enable the DNSP to ‘meet or manage the expected demand for standard control services over that period.’

The AER is required to assess proposed operating and capital expenditure having regard to a number of criteria. One of the issues which the AER must consider in making its determination is whether the proposed expenditure reasonably reflects ‘a realistic expectation of the demand forecast and cost inputs required to achieve the operating/capital expenditure objectives.’ Another of the factors for the AER to consider in assessing proposed expenditure against the criteria includes ‘the extent the DNSP has considered, and made provision for, efficient non-network alternatives.’

As part of its information reporting requirements the AER may require DNSPs to produce a report specifying annual distribution system planning data over five year periods. This data would go towards demonstrating how DNSPs meet the predicted demand for electricity supplied through its distribution network. Such data would:

- indicate emerging major constraints in the distribution network.
- for each substation, set out:
 - its location
 - total and secure capacity (actual and forecast)
 - total and peak demand (actual and forecast)
 - time of day profile for the most recent peak demand day
- detail the current demand management practices and demand management payments of the DNSP.

It is anticipated that a DNSP would publish this data on its website for the benefit of stakeholders.

The AER considers this information would allow the AER to observe emerging constraints and provide a means of identifying those zone substations where more detailed analysis of risks and options for augmentation and non network alternatives are required in the lead-up to a distribution determination. It would therefore streamline and simplify the regulatory determination process by highlighting aspects of a DNSP’s business, expenditure, and/or assets which are most appropriate for engineering based (or other) review. Overall it would enhance transparency in operating and capital expenditure proposals by DNSPs.

In a broader context, making this data publicly available has the potential to further encourage the provision and consideration of efficient non-network alternatives and facilitate the efficient development of the network to best meet the needs of end-customers.

The AER will also collect information required for it to assess Demand Management Incentive Scheme payments and performance. The information required will be specified in the proposed RIO to be published for consultation in November.

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

4 Timing

4.1 Implementation of the RIO

The AER expects to release the RIO in early 2009. Under the RIO it is proposed that all DNSPs will report annually starting from the first regulatory year after this date and provide the information for that year four months after it is completed.

The exception to this proposal is STPIS data. The AER intends to collect STPIS data for the first financial year following the DNSP's next distribution determination from all DNSPs apart from the NSW and ACT DNSPs. The AER considers that, as not all the parameters for each jurisdictional STPIS scheme have been finalized, it would be inappropriate to collect STPIS information prior to the start of the next regulatory control periods.

For NSW and ACT DNSPs, STPIS data reporting requirements for the next regulatory control period will be specified in the 2009–14 distribution determinations. NSW and ACT DNSPs will be subject to the AER's national STPIS from 2014 onwards and will be required to report using the STPIS templates in the RIO from the beginning of the 2014-19 regulatory control period.

The first regulatory control period for DNSPs under an AER distribution determination will begin from 1 July 2009 for DNSPs in NSW and the ACT whose current revenue reviews have been undertaken pursuant to transitional provisions. Queensland and South Australian DNSPs' next determinations commence from 1 July 2010. Victorian determinations commence from 1 January 2011 and Tasmania's next determination commences from 1 July 2012.

These periods are relevant as clause 11.14.3 of the NER delays the application to a DNSP of the "new regulatory regime"² under chapter 6 of the NER until such time as the current regulatory control period under the relevant jurisdictional legislation ends, which is given by the above dates. However, the AER may collect information prior to this using the RIO under sections 28F and 28M of the NEL. Under these sections, the AER is able to issue a RII if it determines that the information detailed in the RIO is necessary for the making of distribution determinations and for the performance of the AER's other functions under chapter 6 of the NER.

Table 4.1 below sets out the timing of the proposed reporting arrangements.

² The reference to the "new regulatory regime" is defined in clause 11.4.2 of the NER.

Table 4.1: Proposed reporting requirements for DNSPs

DNSP	Basis of regulatory years	First reporting year under the RIO	First AER Regulatory determination commences	Number of reporting periods before AER regulatory determination
NSW/ACT				
ActewAGL	Financial year	2009-10	1 July 2009	0
Country Energy	Financial year	2009-10	1 July 2009	0
EnergyAustralia	Financial year	2009-10	1 July 2009	0
Integral Energy	Financial year	2009-10	1 July 2009	0
South Australia				
ETSA Utilities	Financial year	2009-10	1 July 2010	1
Queensland				
Ergon Energy	Financial year	2009-10	1 July 2010	1
Energex	Financial year	2009-10	1 July 2010	1
Victoria				
Alinta AE	Calendar year	2010	1 January 2011	1
CitiPower	Calendar year	2010	1 January 2011	1
Powercor	Calendar year	2010	1 January 2011	1
SP AusNet	Calendar year	2010	1 January 2011	1
United Energy	Calendar year	2010	1 January 2011	1
Tasmania				
Aurora	Financial year	2009-10	1 July 2012	3

Under Schedules 6.1.1(6) and 6.1.2(7) of the NER, DNSPs are required to submit in their building block proposal capex and opex information for the two previous regulatory control periods – that is, a data time series of 8 years for most DNSPs in the NEM (taking into account the timing of the lodgement of the regulatory proposal). The AER considers that introducing the new requirements from the beginning of each DNSP’s next regulatory year after the release of the RIO will enable it to start collecting the necessary data for future distribution determinations just prior to when the next reset process begins. The information collected in the templates will enable the AER to immediately start its analysis of DNSPs’ expenditure and performance with respect to relevant parameters in its revenue (or price) cap. The alternative of starting the annual reporting requirements after their next distribution reviews would

mean a delay of several years before the new arrangements could be introduced and puts greater reliance on back-casting methods, which are imperfect mechanisms for obtaining information – see 4.2 below.

The AER considers that it would be beneficial to introduce annual reporting for all DNSPs for the first regulatory year following the release of the RIO because it will:

- give the DNSPs adequate time to alter their information collection systems in preparation for future distribution determinations;
- assist in transition to the new requirements by providing DNSPs with an opportunity to report information in the format required for future distribution determinations, in advance of those determinations;
- reduce the requirement for DNSPs to back-cast capex and opex information from earlier years in the format to be introduced in the RIO (see 4.2 below).

Under this proposed arrangement some DNSPs will continue to report annually to their jurisdictional regulator to satisfy existing obligations. However, this will for the most part only be for a short period of time (see table 4.1). As the new proposed arrangements are largely based on existing jurisdictional practices, the AER believes this will not represent a significant additional requirement for DNSPs.

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

4.2 Back-casting templates

As mentioned previously, 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 forecasts as part of their building block proposal.

If the RIO is to be implemented from 2009 and 2010, then, for the purpose of the upcoming distribution determinations, DNSPs will be required to back-cast capex and opex information 5-8 years (see section 4.1 regarding dates).

Back-casting information raises potential issues for the accuracy of information provided and such issues may be compounded by the length of the back casting period. Having regard to this, back-casting templates have been developed by the AER for capex and opex and are attached in Appendix B. These templates are simplified versions of the proposed capex and opex templates and are intended to aid DNSPs fulfil their obligations under schedules 6.1.1(6) and 6.1.2(7) of the NER, while providing the AER with sufficient and relevant information to perform the upcoming distribution determinations as referred to in section 4.1.

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

5 Other matters

5.1 Compliance costs

Section 28F of the NEL requires the AER to have regard to the costs that may be incurred by an efficient network service provider in complying with a RIO. The RIO would be issued if the AER considers that the benefits outweigh the costs, and if it contributes to the achievement of the national electricity objective.

The primary costs of introducing a national information reporting framework relate to the transition from the current jurisdictional frameworks. However, as discussed earlier, it is considered that the proposed national templates incorporate the parts of jurisdictional templates most relevant for a national regulator and facilitate a smooth transition to a consistent national reporting framework. Each of the DNSPs will have used most of the cost categories and definitions in the proposed national templates, either for reporting to jurisdictional regulators or for internal business reporting. As noted earlier, there are benefits that a national reporting framework would confer on DNSPs that operate across multiple jurisdictions.

While DNSPs may incur some additional short term costs in transitioning to the national information reporting framework, these costs are not expected to outweigh the long term benefits of a consistent and transparent national reporting approach.

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

5.2 Assurance Requirements

Under clause 28M(e) of the NEL, the AER may request or undertake verification or independent assurance on any information sought by it, or provided to it in a Regulatory Information Instrument.

The AER proposes that the assurance of financial information be one of three assurance options as outlined in Appendix C. All three of the proposed assurance requirements cover, at a minimum, the following matters:

1. basis and application of the Cost Allocation Method
2. arithmetic accuracy
3. reconciliation to statutory financial statements.

It is anticipated that, without limiting the scope of the assurance requirements, the form of the independent assurance may include an assessment of whether an appropriate sample of all allocations of shared costs is in accordance with the DNSP's approved cost allocation methodology.

It is expected that, in accordance with clause 28M(e) of the NEL, the DNSP will be responsible for:

- employing an auditor - with consultation with the AER, to report on the information
- ensuring that the AER receives the auditor's assurance that the information can be relied upon for regulatory purposes.

If the assurance does not satisfy the AER's requirements, the AER may require further assurance. The AER may also require the DNSP to employ an auditor to provide independent assurance.

It is proposed that, unless specified by the AER, any regulatory assurance report required by the RIO shall be submitted in the form of an audit report on a special purpose financial report. Where permitted by the AER, a DNSP may provide a regulatory assurance report on its regulatory financial statements and other statements, schedules and work papers listed in Appendix C in the form of a review of financial reports (negative assurance), or a combination of the foregoing reports. An example of a combined report is set out in Appendix C.

It is anticipated that if the AER requests the auditor's opinion to be explained, or requires more information about the auditor's work, then the AER, or its agent, may request a meeting with the auditor in the presence of the relevant DNSP, both before and after the submission of a DNSP's RIO.

<p><i>Are the AER's proposed assurance requirements suitable?</i></p>

Appendix A Proposed annual information reporting templates

See attached excel spreadsheet titled 'Proposed electricity DNSP annual information reporting templates'.

Appendix B Proposed capex and opex backcasting templates

See attached excel spreadsheet titled Proposed capex and opex backcasting templates.

Appendix C Examples of regulatory assurance reports

This appendix contains examples of an audit report on a special purpose financial report, a review of financial report and a report of factual findings from agreed-upon procedures. These are proposed assurance requirements for financial information only and the AER welcomes submissions on these proposed assurance requirements.

Example: Audit report on a special purpose financial report

[Date]

[Name]

The Chief Executive Officer

[Title]

[The DNSP]

Australian Energy Regulator

GPO Box 520

Melbourne Vic 3001

Dear _____

REGULATORY FINANCIAL STATEMENTS

PERIOD ENDED [period end]

Scope

We have audited the regulatory financial statements and other required statements, schedules and work papers (other required statements) of [the DNSP] for the regulatory accounting period ended [dd month year].

These statements are special purpose financial reports consisting of the statements, schedules and work papers listed in appendix A of the AER's *Distribution Network Service Provider (DNSP) Annual Information Reporting Regulatory Information Order (RIO)* set out on pages [] to [].

[The DNSP]'s directors are responsible for preparing and presenting the regulatory financial statements and other required statements. The directors have determined that the accounting principles and policies used are appropriate to meet the requirements of the AER's *DNSP Annual Information Reporting RIO*.

We have conducted an independent audit of the regulatory financial statements and other required statements to express an opinion on them to the AER and the directors on their preparation and presentation. No opinion is expressed about whether the accounting principles and policies used are appropriate to the needs of the AER.

The statements have been prepared to fulfil the requirements of the AER. We have prepared this report to submit to the AER and for the disclosure of [the DNSP] and it is not to be used for any other purpose than that. We disclaim any responsibility for any reliance on this report, or on the regulatory financial statements and other required statements to which it relates, to any person other than that for which it was prepared.

Our audit has been conducted in accordance with Australian Auditing Standards. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the statements, and the evaluation of significant accounting estimates. These procedures have been undertaken to form an opinion about whether, in all material respects, the regulatory financial statements and other required

statements are presented fairly in accordance with the regulatory accounting principles and policies and the requirements of the AER. These principles and policies do not require all accounting standards be applied nor other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the regulatory financial statements and other required statements present fairly the financial position of [the *DNSP*] as at [period end], the results of its operations and its cash flows for the period then ended, as required by the AER .

Yours faithfully

[Name of auditor]

Chartered Accountants

[Name of signatory]

[Position of signatory]

Example: Review of financial report

[Date]

[Name]

The Chief Executive Officer

[Title]

[The *DN*SP]

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Dear _____

REGULATORY FINANCIAL STATEMENTS

PERIOD ENDED [*period end*]

Scope

We have reviewed the regulatory financial statements and other required statements, schedules and work papers of [the *DN*SP] for the regulatory accounting period ended [dd month year]. The regulatory financial statements and other required statements are listed in appendix A of the AER's *Distribution Network Service Provider (DN*SP) *Annual Information Reporting Regulatory Information Order (RIO)* set out on pages [] to [].

[The *DN*SP]'s directors are responsible for preparing and presenting the regulatory financial statements and other required statements and the information contained therein. We have reviewed the statements to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that they are not presented fairly as required by the AER.

The statements have been prepared to fulfil the AER's requirements. This report is for submission to the AER and for the directors of [the *DN*SP] and is not to be used for any other purpose. We disclaim any responsibility for any reliance on this report, or on the regulatory financial statements and other required statements to which it relates, to any person other than that for which it was prepared.

Our review has been conducted in accordance with Australian Auditing Standards that apply to review engagements. A review is limited primarily to inquiries of company personnel and analysis of the financial data. These procedures do not provide all the evidence necessary in an audit, and thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, do not express an audit opinion.

Statement

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the regulatory financial statements and other required statements of [the DNSP] for the period [dd month year], ended [dd month year], period end, does not fairly present the regulatory information in accordance with the AER's *DNSP Annual Information Reporting RIO*.

Yours faithfully

[Name of auditor]

Chartered Accountants

[Name of signatory]

[Position of signatory]

Example: Report of factual findings from agreed-upon procedures

[Date]

[Name]

The Chief Executive Officer

[Title]

[The DNSP]

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Dear _____

REGULATORY FINANCIAL STATEMENTS

PERIOD ENDED [period end]

Scope

We have performed the procedures agreed with you as detailed in the written instructions of [date] and described below with respect to the regulatory financial statements and other required statements, schedules and work papers of [DNSP] for the period ending [date] set forth in the attached schedules [describe and reference the schedules].

Our engagement was undertaken in accordance with Australian Auditing Standards that apply to agreed-upon procedures engagements. The responsibility for determining the adequacy or otherwise of the procedures agreed to be performed is that of [those who engaged the auditor]. The procedures were performed solely to assist you in evaluating [e.g. the compliance of DNSP] with paragraphs [detail paragraphs considered] of the AER's *Distribution Network Service Provider (DNSP) Annual Information reporting Regulatory Information Order (RIO)* and are summarised as follows:

[Agreed upon procedure]

[Agreed upon procedure]

[Agreed upon procedure]

Because the above procedures do not constitute either an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards that apply to review engagements, we do not express any assurance on the regulatory financial statements and other required statements of [the DNSP]. Had we performed additional procedures or an audit in accordance with Australian Auditing Standards or a review in accordance with the standards, other matters might have come to our attention that would have been reported to you.

Findings

We report as follows:

- (a) With respect to 1 above ...
- (b) With respect to 2 above ...
- (c) With respect to 3 above ...

[Detail any exceptions noted]

Our report is solely for the purpose set forth in the first paragraph of this report and for submission to the AER and is not to be used for any other purpose or distributed to any other party. This report refers only to the accounts and items specified above and does not extend to any financial report of [the *DNSP*], taken as a whole.

Yours faithfully

[*Name of auditor*]

Chartered Accountants

[*Name of signatory*]

[*Position of signatory*]