



20 September 2013

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Chris Pattas
General Manager – Network Operations and Development
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Dear Chris

Expenditure Forecast Assessment Guideline

Jemena Limited (**Jemena**) welcomes the opportunity to respond to the Australian Energy Regulator's (**AER's**) draft decision on expenditure forecast assessment guideline (**assessment guideline**).

Jemena appreciates the extensive amount of effort from the AER to produce a comprehensive draft decision within the limited timeframe available to the AER under the national electricity rules (**NER**). Jemena also appreciates the interactive and consultative approach adopted by the AER in holding numerous workshops in developing its draft decision. Jemena supports this approach and believes it should continue to be used as part of the guideline process, as well as being applied to other AER processes.

Jemena contributed to and fully supports the submissions on this topic from:

1. The Energy Networks Association (**ENA**), and
2. The Victorian distribution businesses.

Rather than re-state the points made in those submissions, Jemena's short submission only provides incremental information and views from Jemena on specific issues by exception. Jemena's incremental comments focus on the information requirements proposed by the AER.

Jemena has grave concerns regarding the AER's proposed approach to collecting and using information for the purposes of economic benchmarking and category assessment, especially with respect to retrospective data estimation and certification.

Jemena takes its Regulatory Information Notice (**RIN**) obligations seriously and expends substantial effort to ensure full compliance with those obligations. Jemena is pleased that the AER's recent review of Jemena Electricity Network's (**JEN**) 2011 and 2012 annual RIN responses did not raise any issues.

Having had the chance to review the draft templates for the information the AER is proposing to collect, as well as the draft wording of the AER's benchmarking RIN, Jemena notes that:

1. The vast majority of the information requested by the AER has not historically been collected by Jemena and cannot be audited.
2. While attempts can be made to estimate the data retrospectively, in most cases, Jemena staff would have insufficient confidence in the resulting retrospective estimates to provide assurance to Jemena's Managing Director, Board of Directors, or auditors that the retrospective estimates:
 - a. are appropriate
 - b. can be relied upon by the AER for the intended purpose.

The level of assurance that can be provided for a large portion of the information is not a function of effort or time expended to obtain the estimates—it is simply the result of underlying data not being collected for the retrospective time period for which the AER intends to request the information. The AER's draft decision therefore creates a situation where Jemena will be unable to comply with a large portion of the RIN issued to Jemena.

To provide the AER with feedback that is more specific, attached to this submission is a colour-coded version of the AER's draft category analysis templates. Each cell has been colour-coded to indicate whether data or estimates can be provided, and the level of assurance that can be attached to those data or estimates. In the short time available, Jemena has not been able to provide a write up of the explanations of why particular data is not available or cannot be accurately estimated. Jemena will provide this information when the AER consults on the full draft category analysis RIN.

It is important to remember that this colour-coding exercise has been undertaken within a short time-frame, using staff expertise, but without attempting to actually populate the cells in the templates. Further data issues could arise when attempting to populate the data into the template. Historical merger activity means that Jemena does not have access to detailed underlying financial information (such as information held in SAP systems) for JEN prior to 2007. The colour coding for information derived from financial systems is based on what would be available for 2007-2013 only.

The definitions of the colours used are as follows:

- **Green**—Jemena has access to mostly actual data that is largely verifiable, and likely to pass an audit. Jemena staff are able to provide the necessary assurance to the Managing Director, Board and auditors that this data is accurate and can be relied upon for the intended purpose.
- **Yellow**—Jemena has access to some actual data, with some gaps, but relatively accurate estimates can be made of the gaps. Jemena staff are able to provide the necessary assurance to the Managing Director, Board and auditors that data is accurate, estimates are appropriate and that the combination can be relied upon for the intended purpose. However, such assurance may not be sufficient to obtain a favourable audit report.
- **Orange**—Jemena has access to little or no actual data. Some techniques are available to estimate the required data, but a high level of uncertainty exists as to the accuracy of the estimates. Jemena staff are unable to provide assurance on the data and estimates, which means audit report cannot be issued.
- **Red**—Jemena has access to little or no actual data. Jemena is not aware of any estimation techniques that can be used for this data, or Jemena has no way of

knowing how accurate any estimate may be. Jemena staff are unable to provide assurance on the data and estimates, which means audit report cannot be issued.

- Black or colour unchanged from original—Cell or template is not relevant to Jemena.

Under the classification above, and given the draft wording of the sections of the benchmarking RIN that deal with assurance, only data that is coded as “green” would be compliant with the AER’s requirements. Should the AER relax its audit requirements, and allow for data to be provided subject to management sign-off only, data and retrospective estimates coded as yellow would also be compliant. Retrospective estimates coded as orange and red would be arbitrary, unreliable and not fit to be used for the purposes of benchmarking or assessing forecast expenditures.

Jemena is committed to providing the AER with robust and accurate information that it requires to carry out its duties. Jemena is currently working on ensuring that as much as possible of the information requested in the category analysis RIN can be provided for future reporting years.

If you wish to discuss this submission, please contact me on (03) 8544 9053 or at robert.mcmillan@jemena.com.au

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Robert McMillan', is centered on a light yellow rectangular background.

Robert McMillan
General Manager Regulation
Jemena Limited