

Mr Warwick Anderson
General Manager, Network Pricing
Australian Energy Regulator
GPO Box 3131, Canberra ACT 2601

By email: AERPricing@aer.gov.au

22 September 2021

Dear Warwick,

Submission on preliminary standardised Ancillary Network Services model

Jemena Electricity Networks (**JEN**) welcomes the opportunity to provide feedback on the preliminary Ancillary Network Services (**ANS**) model published by the Australian Energy Regulator (**AER**) for consultation. We agree that a standardised ANS model across distribution network service providers (**DNSPs**) is one way for the AER to assess proposals put forward in an electricity distribution price review process. Below we present our feedback on each worksheet of the preliminary model and **Annexure A** includes a summary table of our proposed revisions.

Our feedback is prefaced on ancillary network services being based on a price cap. If the form of control of these services were to change, then any underlying standardised model would also need to change. In addition, we consider the final standardised ANS model needs to be flexible enough to accommodate the cost allocation methodologies (**CAMs**) of all DNSPs in the National Electricity Market (**NEM**).

Our submission includes a revised model (Attachment A), which demonstrates how our proposed feedback can be implemented in the standardised ANS model. We recommend that the AER reviews attachment A while considering our proposed revisions.

- 1. Input|setup** – The year inputs in cells G7 to G26 do not update dynamically. Some of these cells are formulas that are dependent on the preceding cells. However, some of these cells have been hardcoded, including the first cell, which we assume should be based on the first year of the current regulatory period in table 3.2 (cell B11). We recommend linking the first year in the list (cell G7) to B11 and setting the following cells in the list (G8 to G26) to be one year forward from the year in the cell above.

The cells in table 3.5 should be formatted as input cells rather than formula cells, as these entries will vary depending on the data that is being converted. Finally, we recommend adding a table (table 3.9) to allow fee-based services to be classified by expense type – capex or opex. This table is used in our proposed revisions in later worksheets.

- 2. Input|Escalations** – Cell D44 in table 4.4 should be hardcoded as a blank cell. It currently attempts to calculate the inflation using the first ABS index value and the empty cell to its left. Similarly, the cell in D45 should be hardcoded as one, as it is the first value in the cumulative inflation index. Currently, the formula is one plus inflation, where the inflation amount is zero due to the issue in cell D44 highlighted above.

In addition, the model validation check for table 4.3 currently only checks to see if the table is not empty. However, there are no checks to ensure that the percentage weights for each year sum to 100%. We recommend that these checks are added and the check in cell N32 is revised to ensure that the weights for all of the input years sum to 100%.

- 3. Input|Indirect Cost Rates** – We assume that the intention of table 5.1 is to provide the values of on-cost drivers for each labour category. Currently, the header of table 5.1 is labelled with numbers 1 to 4 and we assume that these labels are intended to represent the different labour categories. As noted in point 1 above, we recommend that the labour type categories in the header of table 5.1 should link dynamically to the inputs added in table 3.7 in the *Input|Setup* worksheet. This can be achieved by using the index match function to look up the corresponding labour type category on the setup inputs sheet. The contents of table 5.1 should also have the “formula” format rather than the “input” format.

The cells containing the compounded on-cost factors in table 5.1 are currently hardcoded numbers and have the “input” format. These cells should be a calculation, reflecting the compounded on-cost drivers in rows 8 to 18. We recommend changing the format of these cells to the “formula” format and using the product function to calculate the compounded on-cost percentages.

Finally, we seek clarification on the intended use of table 5.4 in this worksheet. In table 5.4, the inputs are labelled as “Tax rate 1, Tax rate 2, ...”, but we consider this could be confused with the tax rate of 30% that is used to calculate DNSPs’ tax allowances. We consider that AER could be intending table 5.4 to be used by DNSPs to input margins to recover the timing difference of tax expenses from fee-based services that are capex in nature. We request that the AER confirms whether our understanding is correct and if so, considers labelling these inputs as “Tax recovery rate 1, Tax recovery rate 2,” and revising the heading of table 5.4 to “Tax recovery rates”.

- 4. Input|Labour Rates** – Table 6.1 currently requires users to manually enter the list of labour type categories in the first column by selecting from a drop-down menu. This process could be simplified by directly linking these cells to the list of labour

categories in table 3.7 from the *Input/Setup* worksheet. The number of rows in table 6.1 should also align with the number of labour type categories in table 3.7.

In addition, we recommend that the “on-cost rate (%)” column in table 6.1 be linked to table 5.1 using the index match function and then formatted with the “formula” format. Currently, the “on cost rate” column contains a mix of direct links to table 5.1 and links to other cells in the “on-cost rate” column. The “overhead rate (%)” should also be formatted using the “formula” format.

Finally, we do not consider that table 6.3 on this sheet is required, as the model’s main output is to derive the hourly rates for each labour type category rather than providing a full list of quoted services.

- 5. Input|Fee Based** – Table 7.1 should include an additional mapping category that classifies fee-based services into capital expenditure (**capex**) or operating expenditure (**opex**) because including a margin for tax recovery is dependent on whether the expense type is capex or opex. We recommend that this column should allow users to select an expense type using a drop-down menu based on our proposed table 3.9 in *Input/Setup*.

We recommend that table 7.2 include input columns on the number of full-time equivalent (**FTE**) employees required for each labour type category and add model validation and error checks to ensure that DNSPs have entered FTE inputs for non-field and field-based labour.

In addition, table 7.2 should accommodate two labour category input columns for non-field based labour and three labour category input columns for field-based labour. This allows flexibility in the model for accommodating fee-based services that require more than two types of field-based labour. For reference, JEN has five field-based labour categories—technical specialist, engineer, senior engineer, business-hours field worker and after-hours field worker.

Table 7.3 on this worksheet should also be formatted with the “formula” format rather than the “input” format, as the cells are linked to the *Input/Indirect Cost Rates* worksheet. We recommend that the cells under the “tax recovery” column be linked to the rates in table 5.4 using a formula to check if the fee-based service is classified as capex in table 7.1.

Finally, table 7.4 includes an error check that flags when there is an entry in the “other” costs column in table 7.2 but no notes or comments are entered. We recommend that this error check be revised to not flag if zero is entered in the “other” costs column.

- 6. Input|Historical Fee Based** – We recommend that this worksheet is removed from the standardised ANS model. The price control checks and calculations for each fee-based service in columns L to P are completed in the annual pricing process and are therefore redundant during a price reset process. In addition, the calculations for the forecast regulatory period could be presented on the *Output/Fee Based* worksheet.

7. **Calc|Labour Rates** – We recommend that in table 9.1, the number of rows should reflect the number of labour types allowed for in table 3.7 from the *Input|Setup* worksheet. The cells in tables 9.1 and 9.2 should be formatted with the “formula” format as they are either links to table 6.1 or calculations.
8. **Calc|Fee Based** – We recommend that table 10.2 includes columns for FTE information from the revised *Input|Fee Based* worksheet. The formula in the “applied labour rate” columns could be simplified by using an index match function that links the labour cost corresponding to the labour category (using table 9.2 in the *Calc|Labour Rates* worksheet). The cells in the “total cost” columns in table 10.2 should be revised to reflect the following formula:

$$Total\ Cost = \sum_{i=1}^N (FTE_i \times Total\ Time_i \times Applied\ Labour\ rate_i)$$

where ‘N’ is the number of available labour categories – two for non-field based labour and three for field-based labour. Currently, the model calculates total cost using only “total time (hours)” and “applied labour rate” columns that implicitly assumes that FTE is equal to 1.

Table 10.2 includes columns for the “vehicle”, “materials” and “contracts” cost components but it is missing a column for the “other” cost component. In the preliminary model, the cells in the “contracts” have also been linked to the “other” costs in table 7.2 of the *Input|Fee Based* worksheet. In Attachment A, we add a column to accommodate the “other” cost component and correct the links.

In table 10.3, we recommend that the formula in the “tax recovery” column excludes the use of the empty column on the left of table 10.3. We implement these changes to the *Calc|Fee Based* worksheet in attachment A.

9. **Output|Fee Based** – We recommend that the X-factors in table 1.1 adopt the percentage format to be consistent with how AER presents X-factors in price determination documents and so that the signs (positive or negative) of the X-factors are visible. We also recommend that this worksheet present the fee-based price outputs for each year of the forecast regulatory period. These were previously located on the *Input|Historical Fee Based* worksheet. However, consistent with point 6 above, we recommend that this worksheet is removed.

We recommend linking table 1.2 to table 10.2 in the *Calc|Fee Based* worksheet (rather than *Input|Historical Fee Based*) so that there is a direct link between the output sheet and the calculation sheet. We also recommend using an index match formula to match the prices with the names of fee-based services.

10. **Output|Quoted** – We recommend that our proposed revisions to table 1.1 be applied to table 2.1. We also recommend that in table 2.2, the formula in the “hourly rate” column is linked directly to table 9.1 in the *Calc|Labour Rates* worksheet using an index match formula. Finally, the number of rows in table 2.2 should align with the number of labour type categories in table 3.7.

11. Model validation – The check in cell C47 checks that all fee-based services have valid entries for the “network overheads” indirect cost. We recommend that this check be extended to all four indirect costs to ensure that fee-based services also have valid entries for “corporate overheads”, “margin” and “tax recovery” indirect costs.

12. Other recommendations – In addition to the above, we recommend that the AER consider the following improvements:

- *Reducing model size* – The model size is currently over 13MB. We have reduced the size of our revised standardised ANS model to less than 1MB by removing content or formatting in unused cells.
- *Model flexibility* – JEN’s fee-based services model includes several separate working sheets that outline how certain inputs, such as tax recovery rate, have been calculated. We request that the AER’s final ANS model includes the flexibility for to DNSPs to add additional working sheets where required.
- *Consistent terminology* – We replace all instances of “forthcoming regulatory period” to “forecast regulatory period” to be consistent with the terminology used by the AER.

We are committed to working constructively with the AER and welcome any further queries about the above feedback. If you wish to discuss this submission, please contact Spencer Little on [REDACTED]

Yours sincerely

[REDACTED]

Matthew Serpell
Manager Electricity Regulation

Annexure A – Summary of recommendations

Worksheet	Table / Cell reference	Type	Proposed revisions
Input Setup	Cells G7:G26	Formula revision	<ul style="list-style-type: none"> Link the first year to the input in table 3.2 Use a formula to populate the other years
	Table 3.5	Formatting	<ul style="list-style-type: none"> Cells in this table should have the “input” format
	Table 3.9	Structural change	<ul style="list-style-type: none"> Add a table to classify fee-based services as capex or opex
Input Escalations	Table 4.3	Model checks	<ul style="list-style-type: none"> Apply checks that ensure the sum of the weights in table 4.3 equals 100% in each year
	Table 4.4	Formula revision	<ul style="list-style-type: none"> Replace first year inflation with a blank cell Hardcode a one for the first year of the cumulative inflation index
Input Indirect Cost Rates	Table 5.1	Formula change	<ul style="list-style-type: none"> Link the header of table 5.1 to the labour types in table 3.7
		Formula revision	<ul style="list-style-type: none"> The compounded on-cost factor should be a calculation (rather than an input) and based on the on-cost drivers
	Table 5.4	Labelling	<ul style="list-style-type: none"> Suggest changing the title of this table to “Tax recovery rates”
Input Labour Rates	Table 6.1	Formula revision	<ul style="list-style-type: none"> Link labour types to the inputs in table 3.7 Apply the “formula” format to column B (labour types) Link the <i>On cost rate (%)</i> column to table 5.1
		Formatting	<ul style="list-style-type: none"> The <i>Labour type, Hours, On cost rate (%)</i> and <i>Overhead rate (%)</i> columns should have the “formula” format

	Table 6.1	Structural change	<ul style="list-style-type: none"> Limit the number of rows to the number of labour types from table 3.7 in the <i>Input/Setup</i> worksheet
	Table 6.3	Structural change	<ul style="list-style-type: none"> Consider removing table 6.3
Input Fee Based	Table 7.1	Structural change	<ul style="list-style-type: none"> Include a column that classifies each fee-based service as a capex or opex project
	Table 7.2	Structural change	<ul style="list-style-type: none"> Insert columns to allow DNSPs to enter the number of FTEs for each labour category Allow DNSPs to enter up to three (rather than two) labour categories under the field-based labour section
		Model checks	<ul style="list-style-type: none"> Include checks to ensure FTE inputs are entered in
	Table 7.3	Formula revision	<ul style="list-style-type: none"> Link in the “tax recovery” amount depending on whether the fee-based service is capex or opex
	Table 7.4	Model checks	<ul style="list-style-type: none"> Revise the check to not flag when the “other” cost component is either zero or blank
Input Historical Fee Based	All	Structural change	<ul style="list-style-type: none"> Consider removing this sheet
Calc Labour Rates	Table 9.1	Formatting	<ul style="list-style-type: none"> Change the format of the table to the “formula” format
		Structural change	<ul style="list-style-type: none"> Limit the number of rows to the number of labour types from table 3.7 in the <i>Input/Setup</i> worksheet
	Table 9.2	Formatting	<ul style="list-style-type: none"> Change the format of the table to the “formula” format
		Structural change	<ul style="list-style-type: none"> Limit the number of rows to the number of labour types from table 3.7 in the <i>Input/Setup</i> worksheet
Calc Fee Based	Table 10.1	Structural change	<ul style="list-style-type: none"> Include the FTE component in the total labour cost calculations
	Table 10.2	Formula revision	<ul style="list-style-type: none"> Simplify the formula for looking up applied labour rates
		Structural change	<ul style="list-style-type: none"> Include column for the “other” cost component
		Formula revision	<ul style="list-style-type: none"> Revise the links for the “contracts” cost component

	Table 10.3	Formula revision	<ul style="list-style-type: none"> Revise the formula for the “tax recovery” cost component
Output\Fee Based	Table 1.1	Labelling	<ul style="list-style-type: none"> Revise the heading to indicate that the table includes CPI and X factors for years 2 to 5 of the forecast regulatory period
		Structural change	<ul style="list-style-type: none"> Include forecast CPI for years 2 to 5 of the forecast regulatory period in the table
		Formatting	<ul style="list-style-type: none"> Cells for X factors should be changed to percentage format
	Table 1.2	Labelling	<ul style="list-style-type: none"> Revise heading to indicate that table includes prices for each year of the forecast regulatory period
		Formula revision	<ul style="list-style-type: none"> Link the prices for the first year of the forecast regulatory period to table 10.1 from <i>Calc\Fee Based</i> Use the index match formula to match prices with the corresponding fee-based service
		Structural change	<ul style="list-style-type: none"> Include forecast prices for years 2 to 5 of the forecast regulatory period
Output\Quoted	Table 2.1	Formatting	<ul style="list-style-type: none"> Cells for X factors should be changed to percentage format
	Table 2.2	Formula revision	<ul style="list-style-type: none"> Use the index match formula to match the hourly rates with the corresponding labour type
		Structural change	<ul style="list-style-type: none"> Limit the number of rows to the number of labour types from table 3.7 in the <i>Input\Setup</i> worksheet
	Table 2.3	Structural change	<ul style="list-style-type: none"> Consider deleting table 2.3
Model Validation	Cell C47	Formula revision	<ul style="list-style-type: none"> Extend the check to cover all four indirect costs rather than “network overheads”