



OFFICE OF THE CHIEF EXECUTIVE

Ref: A1828067

17 January 2014

Mr Chris Pattas
General Manager
Network Operations & Development
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

Attention: Lawrence Irlam

Dear Chris

AER Draft Category Analysis Regulatory Information Notice (RIN)

Powerlink appreciates the opportunity to provide comment on this matter and understands that the AER is prepared to consider whether further amendment to the RIN or further clarification is required in response to submissions on the Draft RIN prior to finalisation and issue in late February/early March 2014.

Powerlink has a number of overarching concerns with the Draft RIN and more specific issues with the information being requested.

Overarching Issues

Compared to the Benchmarking RIN, Powerlink notes that the Draft Category Analysis RIN reflects a significant step increase in the level of information and disaggregation required. Of particular note is that the templates now require disaggregated cost breakdowns in relation to internal labour costs and compositions, including for stand down periods, as well as changes for reporting on various contract costs.

The AER considers that the information contained in this RIN is reasonably necessary for input to publication of its annual benchmarking reports and to assess benchmark capital and operating expenditure at the time of a regulatory determination.

From Powerlink's perspective, the information request is onerous and there is a potential inability to meet the AER's full requirements in the required delivery timeframe of 31 May 2014.

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This is driven by three related issues:

- the absence of information of the precise nature and form required by the AER;
- the extremely onerous basis of preparation requirements; and
- the ability to meet the required audit requirements.

Each of these matters is discussed in more detail below.

Current Business Information Systems

Powerlink does not currently and has not historically collected or disaggregated some of the requested information at all. For the most part, Powerlink's systems do not record and from a business management requirement have not been necessary to record the requested information broken down into the very specific and detailed manner that the AER has requested in the RIN data templates. To complete the data templates, it will be a manual, resource intensive, time consuming and costly exercise for Powerlink, which the AER has acknowledged.

Like a number of other businesses, Powerlink will need to spend significant time and effort to consider how to reasonably meet the AER's RIN requirements. This will include an assessment of what information Powerlink's current systems provide that could potentially be used, how this information could be transformed (if at all) to provide the required output (including allocation or estimation principles or rules), what gaps in the data remain and how these gaps could potentially be filled. This is even before staff attempt to test the robustness of the output and commence documenting the basis of preparation material required by the AER to ensure that review, audit and certification requirements can be satisfied.

Basis of Preparation

The AER's Draft RIN requires that Powerlink prepare and comply with its specific preparation requirements. Among other things, these require that additional workbooks be prepared which:

- demonstrate how the information provided is consistent with the RIN;
- explain the source of the information;
- explain the methodology applied and assumptions made in developing the data; and
- explain the circumstances where Powerlink cannot provide input for a variable using actual information and the basis for that estimate.

Powerlink accepts that material should be provided to explain how the data was derived or prepared. However, it is not clear to Powerlink that the AER fully appreciates the length of time it will take to complete the supporting workbooks themselves to the level required. An important element in this regard is the need to reconcile capital and operating cost information by project, in total and to Powerlink's statutory accounts.

Audit Requirements

The AER has set out audit and review requirements for both actual and estimated financial and non-financial information.

Powerlink has discussed the AER's audit requirements with KPMG, the auditor engaged by Powerlink for the RINs. The discussions with KPMG confirm that the AER's audit requirements will be onerous and will take significant resource effort and time to complete.

Powerlink's advice is that the required audits/reviews may take several months in addition to the initial data collection and collation. Given that the AER does not expect to issue its Final Category Analysis RINs until late February/early March 2014 and the RINs must be lodged with the AER by end May 2014 (ie. within 3 months of finalisation), Powerlink is extremely concerned that this leaves an unreasonably short time for internal preparation and review before subjecting to formal review/audit, and practically leaves little or no scope for amendment or refinement afterward.

Specific Issues

Comments regarding specific issues with the information requested are in the Appendix.

Conclusion

To be clear, Powerlink understands and does not dispute the intended purpose of the information being requested under the RIN. However, in the interests of ensuring that Powerlink (and other businesses) are afforded sufficient reasonable time to properly prepare and review this very detailed information prior to submission to the AER, Powerlink strongly encourages the AER to take a *more pragmatic approach* to the timing of when this should occur, the level of detail being requested and to the level of audit certification required.

To this end, Powerlink proposes that it would provide provisional data by 31 May 2014, and audited data by 31 July 2014.

In the event the AER maintains its current position, which we have noted is unreasonably short, Powerlink reserves the right to resubmit its historical data if there are subsequently found to be material concerns. For example, where Powerlink has applied an allocation principle that was later determined to be materially less appropriate than an alternative.

In relation to the level of audit certification required, Powerlink proposes to schedule a teleconference (including its auditors KPMG) so that the AER can fully understand its proposed audit requirements and consider a less onerous alternative that may still deliver the level of confidence the AER would require at lower administrative cost to all business.

If you have any queries in relation to this matter, please contact Maurie Brennan (07 3860-2715) or Jennifer Harris (07 3860-2667).

Yours sincerely



Merryn York
CHIEF EXECUTIVE

APPENDIX

Powerlink Response to Specific Draft Category RIN Items

Template Tab	Template Table	Issue	Response
2.2	2.2.1	Definition of "Asset Failures" as per Appendix F of RIN letter 6/12/13	The definition of "Asset Failure" is not clear and should delete the following words: "a known instance in which an asset did not perform as intended"
2.2	2.2.1	Substation Switchbays	Change "GIS MODULE" to "GIS or HYBRID GIS MODULE" in all applicable definitions
2.3	2.3.1 and 2.3.2	Land and Easements	Powerlink has easement and land projects separate to the construction project. For large augmentations, where Powerlink has a separate easement /land project, Powerlink proposes to provide a separate row in Table 2.3.1 or 2.3.2 for the easement/land project with: <ul style="list-style-type: none"> • internal labour costs identified as Other Direct costs; and • contract costs identified under Other expenditure. Costs directly attributable to the land purchase or easement compensation payments will be totaled in the Land and Easements columns. These costs will include legal, stamp duties, and cost of purchase or easement compensation payments.
2.3	2.3.1	Substation ID	Draft RIN Clause 7.2 (e) (p22) states that each row must represent data for an augmentation for an individual substation. Where a substation augmentation project involves the installation of plant, switchgear or reactive plant at multiple sites, a row will be allocated in Table 2.3.1 for each substation involved. Where the substation augmentation is at one site, with minor changes at remote substations such as protection and control systems changes, a row will be entered into Table 2.3.1 only for the augmented site with costs for the remote substations included in this row. Project overheads will be allocated on a reasonable basis.
2.3	2.3.1 & 2.3.2	Substation ID	Where a transmission line augmentation occurs and is represented in Table 2.3.2, any substation augmentation forming part of the same project will be entered as separate row(s) in Table 2.3.1.
2.3	2.3.1	Other Plant Item	Project overheads will be allocated on a reasonable basis. Powerlink proposes to include all purchase costs for equipment other than transformers, switchgear or reactive plant in this column.

Template Tab	Template Table	Issue	Response
2.3	2.3.1 & 2.3.2	Installation labour	As required, Powerlink will include installation labour costs only in this column exclusive of testing and commissioning activity costs.
2.3	2.3.1 & 2.3.2	Other Expenditure -Contracts	Powerlink proposes to include all contract costs associated with the project that have not been included in any other relevant column under this column.
2.3	2.3.1 & 2.3.2	Major Contracts – Non Related Party	It is unclear whether this includes plant procurement contracts. Powerlink proposes to include the costs of the major contract associated with the project in this column. These costs would also be recorded in other columns, ie. the plant and equipment columns or the Other Expenditure – contracts column.
2.3	2.3.1 & 2.3.2	Non-material projects	The information in section 7.2(b) (p21) of the Draft RIN is unclear on this matter. Powerlink proposes to provide the total expenditure for all non-material substations and all non-material transmission line augmentation projects in one row in each table respectively.
2.3	2.3.2	Line ID	Draft RIN clause 7.3(e) (p23) states that “each row should represent data for an augmentation project for an individual circuit”. For double circuit lines, Powerlink proposes to halve the costs and put equal values against each circuit.
2.3	2.3.2	Towers / Poles	Powerlink proposes to include the procurement costs associated with the tower equipment including the cost of civil works undertaken by the lines construction contractor under this column.
2.3	2.3.2	Other Expenditure – Civil works, Contracts	It is unclear whether work associated with the clearing and access for the transmission line is to be included as civil works or contracts. These works typically include vegetation clearing, access track establishment, creek crossings, installation of culverts and drainage, and benching for tower pad preparation.
2.3	2.3.2	Line ID	Powerlink proposes to include these costs as Other Expenditure - civil works. Where the purpose of a project is to augment a particular line circuit, and minor work is required on other circuits (e.g. work to shuffle feeder bays), Powerlink proposes to include the minor costs associated with other circuits in the row representing the circuit being augmented.
2.5		Non-Network	Negotiated transmission services should be deleted as it is not relevant for the regulatory purposes. Labour direct cost breakdown by category – not available – estimates will be used. SCADA categorisation will differ from that used in Powerlink’s current regulatory reporting. Powerlink proposes to develop additional relevant categories if necessary.
2.7	2.7.1	Routine and Non-Routine Maintenance – by asset/activity type	

Template Tab	Template Table	Issue	Response
2.7	2.7.2	Routine Maintenance – Direct Costs by input type	Powerlink proposes to develop additional relevant categories if necessary.
2.7	2.7.3	Non-Routine Maintenance – Direct Costs by input type	Powerlink proposes to develop additional relevant categories if necessary.
2.7	2.7.4	Total Maintenance – internal labour costs	Powerlink adopts a standard labour charge rate. Some of the columns such as “annual allowances”, “stand down occurrences”, etc. is not available. It is unclear what is intended in some of the columns as Powerlink resources do not just undertake maintenance work. Further clarification is required.
2.8		Overheads	Overhead costs are applied in accordance with the AER approved Powerlink Cost Allocation Methodology. It is unclear what is intended to be reported. Further clarification is required.
4.2	4.2.1	Native Demand	Reporting of native demand will be consistent with that in the Transmission Annual Planning Report.
4.2	4.2.1 and 4.2.2	Weather Correction	Consistent with the Benchmarking RIN Powerlink will only be able to reliably report weather correction to 10% and 50% PoE conditions going forward. No historical weather correction will be provided.
4.3	4.3.1(a) and 4.3.1(b)	Weather Correction	Powerlink has around 100 individual customer load connection points.
4.3	4.3.1(a) and 4.3.1(b)	Adjustments	Powerlink considers that it would be excessively onerous to require weather correction for demand at each connection point. This includes data going forward as well as historically. Powerlink does not record (and is unable to reliably record) load switching and transfers performed on the customer networks. In addition to DNSPs some non-DNSP customers (eg Aurizon) have their own electricity networks between Powerlink connection points and can shift load to suit operational needs.
4.3	4.3.2(a) and 4.3.2(b)	Other spatial levels	Draft RIN, Appendix E, clause 8.5 requires Powerlink to provide separate spatial demand information where more than one level of spatial demand information is used to derive expenditure forecasts. Each emerging network limitation has its own unique spatial definition and it is not possible to provide this information in a way that would meet the requirements of the Draft RIN.
All Cost Tabs		If required	Powerlink proposes to include a balancing item column in relevant tables to capture residual project costs not otherwise captured in the identified columns or to allow for reconciliation with totals.

Template Tab	Template Table	Issue	Response
Various		Prescribed, negotiated and non-regulated disaggregation	Powerlink considers that disaggregation within non-regulated (ie. between negotiated and non-regulated) is not relevant as these are subject to commercial arrangements.
Various	2.2.3 2.3.4 2.4.3 2.5 2.7.4 2.8.2	Internal Labour	<p>Categorisation of direct labour and time not worked is not consistent with Powerlink's AER approved cost allocation methodology and reporting systems. In particular, only labour hours worked is directly charged to categories adopting an aggregate labour rate that includes relevant overheads.</p> <p>The required separation of Powerlink's labour costs into component parts can only be provided based on allocations and estimates.</p> <p>If this requirement were ongoing – significant structural changes to Powerlink's cost allocation methodology, costing systems and data collection approaches will be required.</p>
Various	2.2.2 2.6.6 2.7.2 2.8.1	Input costs Direct Labour	<p>Categorisation of direct labour input costs is not consistent with Powerlink's AER approved cost allocation methodology and reporting systems. In particular, only labour hours worked is directly charged to categories adopting an aggregate labour rate that includes relevant overheads.</p> <p>All existing regulatory reporting and determinations have been based on this approach.</p> <p>Separating direct labour as per the definitions will need to be done using estimating techniques. Categorisation of the overhead costs into a separate column will be required.</p> <p>If costs were to be separated and only the 'direct costs' reported as required for the RIN then this may not reconcile to the regulatory accounts.</p>