

Advanced Metering Infrastructure – Consultation Paper: Revised Framework & Approach (December 2008) Response

Submitted: 29 December 2008

AMI Revised Framework & Approach Response

About SP AusNet

SP AusNet is a major energy network business that owns and operates key regulated electricity transmission and electricity and gas distribution assets located in Victoria, Australia. These assets include:

- A 6,574 kilometre electricity transmission network indirectly servicing all electricity consumers across Victoria;
- An electricity distribution network delivering electricity to approximately 575,000 customer connection points in an area of more than 80,000 square kilometres of eastern Victoria; and
- A gas distribution network delivering gas to approximately 504,000 customer supply points in an area of more than 60,000 square kilometres in central and western Victoria.

SP AusNet's vision and mission is to make important things in life happen today and tomorrow. The SP AusNet company values are:

- **Safety:** to work together safely. Protect and respect our community and our people.
- **Passion:** to bring energy and excitement to what we do. Be innovative by continually applying creative solutions to problems.
- **Teamwork:** to support, respect and trust each other. Continually learn and share ideas and knowledge.
- **Integrity:** to act with honesty and to practise the highest ethical standards.
- **Excellence:** to take pride and ownership in what we do. Deliver results and continually strive for the highest quality.

For more information visit: www.sp-ausnet.com.au

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EXECUTIVE SUMMARY

In November 2008, the State Government gazetted amendments¹ to the Advanced Metering Infrastructure (AMI) Cost Recovery Order which impacted on:

- the timing for implementation of AMI in Victoria, extending the completion date to 31 December 2013;
- regulatory arrangements for the recovery of costs by distributors, moving from a forecasts and incentive regime to a cost pass through regime; and
- the responsible authority, transferring responsibility from the Essential Services Commission (the Commission) to the Australian Energy Regulator (AER) from 1 January 2009.

As an outcome of these amendments the Commission is required to reconsider its approach to the framework for setting prices for regulated metering services and other fees and charges. The Commission has released its ***Advanced Metering Infrastructure Review Consultation Paper: Revised Framework and Approach*** for consultation. As a key stakeholder in AMI, SP AusNet welcomes the opportunity to respond to the Consultation Paper.

As noted above, under the revised regulatory arrangements the cost recovery regulatory framework has changed from incentive based control to a “cost pass through” building block approach. Rather than a model based on expenditure forecasts and the incentive for distributors to outperform those forecasts, the cost pass through mechanism allows for separate submission and approval processes for budgets and charges, with budgets approved prior to the cost recovery or budget period and charges determined on an annual basis to follow the expenditure/revenue profile, rather than being locked into a predetermined price path.

Distributors are entitled to budget for expenditure and recover actual, audited costs incurred in delivering regulated services prescribed under the revised Order, with the onus on the regulator to establish that budgeted expenditure and actual audited expenditures are outside the scope at the time of commitment, or incurring or are not prudent. Under the revised cost recovery framework there is no incentive for distributors to inflate or overstate costs in any budget submission as any over recovery of revenue will cause a reduction in future years’ revenue.

The AMI process is a complex and evolving one and the revised Order is extremely prescriptive in setting out how fees and charges are to be set and costs recovered.

The changes to regulatory arrangements as gazetted impose a heavy, additional administrative burden on distributors with the requirement to make a number of formal submissions to the Commission in relation to budgets, charges to be applied and fees. It is therefore important that there be a high level of certainty in respect of the scope of works to be allowed and the approach to be adopted by the Commission in considering a distributor’s applications.

While SP AusNet generally supports the Commission’s approach as outlined in the Consultation paper, it is concerned that the interpretation placed on key aspects of the revised Order is contrary to the intent proposed. As noted previously, SP AusNet believes that under the revised Order the onus of proof falls to the Commission to establish that expenditure is **outside** the scope at the time of commitment, or incurring or is **not** prudent. Further, in regard to scope, Schedule 2

¹ ***Advanced Metering Infrastructure Order In council, 2008***, Victorian Government Gazette No S 314, Tuesday 25 November 2008.

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provides a list of activities **reasonably required** for the provision of Regulated Services and to comply with a metering regulatory obligation or requirement. The question of scope is determined by the need to undertake an activity, listed or otherwise, in order to provide the service or comply with an obligation.

Similarly in relation to contract costs and the competitive tender process, the requirement is for the Commission to establish that it is more likely than not that expenditure will not be incurred, or involves a substantial departure from commercial norms, or that the contract was not let in accordance with a competitive tender process.

AMI represents a significant opportunity for Victorian consumers and the energy supply industry in general. SP AusNet welcomes the opportunity to be a leading participant in this process and looks forward to continuing to work with Government, the Commission, industry and consumers to achieve the successful implementation of the AMI program.

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1 Introduction

In December 2007, following consultation with interested parties, the Commission published its final framework and approach to the setting prices for regulated metering services and other fees and charges, based on the requirements of the AMI Cost Recovery Order (the Order). Subsequently, in November 2008 the State Government gazetted amendments to the Order which impact on:

- the timing for implementation of Advanced Metering Infrastructure (AMI) in Victoria, extending the completion date to 31 December 2013;
- regulatory arrangements for the recovery of costs by distributors, moving from a forecasts and incentive regime to a cost pass through regime; and
- the responsible authority, transferring responsibility from the Essential Services Commission (the Commission) to the Australian Energy Regulator (AER) from 1 January 2009.

The Commission is now required to reconsider its approach to the framework for setting prices for regulated metering services and other fees and charges and has released its ***Advanced Metering Infrastructure Review Consultation Paper: Revised Framework and Approach***.

Under the revised Order, Distributors will be required to make a number of formal submissions to the Commission in relation to budgets, charges to be applied and fees. The Consultation Paper proposes a framework and approach to be applied in determining charges and fees to be applied by distributors and discusses:

- the proposed approach, including how distributor's budget applications, budget variations and charges applications will be considered;
- specific regulatory issues including efficiency carryover mechanism and taxation;
- how prices are to be established, including 2009 prices and charges for metering services to unmetered connection points; and
- information requirements and timeframes.

In this submission, SP AusNet provides comment on the Commission's interpretation of aspects of the revised Order together with responses to the specific issues raised by the commission in the Consultation Paper.

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2 Response to Specific Questions

2.1 General comment

SP AusNet considers the revised Order to be prescriptive in detail and that it clearly places the onus of proof on the Commission with some of the decisions required being to establish something in the negative, for example the need for the Commission to establish that:

- expenditure is **outside** the scope at the time of commitment or incurring;
- expenditure is **not** prudent;
- a contract was not let in accordance with a competitive tender process;
- it is more likely than not that expenditure will not be incurred.

SP AusNet is concerned that the Commission, throughout key aspects of the Consultation Paper has misinterpreted the intention of the revised Order and is seeking to move the onus of proof to the distribution business. SP AusNet considers that it is not for the Commission to decide if expenditure is within scope, as suggested on page 13 of the Consultation Paper, but rather to **establish** “that expenditure...is for activities **outside** scope” (5C.2(a)) or that “expenditure...is **not** for activities that are within scope” (5I.4).

2.2 Analytical framework (section 2.2)

In this section of the Consultation Paper, the Commission has used a flowchart to illustrate what the Commission believe is the decision making process of whether actual or forecast expenditure can be included in revised charges.

SP AusNet would like to point out to the Commission that whilst using flowchart may be a useful tool for communication of the general nature of the enquiry, it's inevitable that these diagrammatic representations cannot fully capture the requirements of the regulatory instrument. Therefore the flowcharts must be use with some caution and should not replace a reading of the OIC itself. SP AusNet suggests the final framework and approach paper recognised this limitation of the flowchart.

2.3 Is expenditure within scope? (section 2.3)

Stakeholders are invited to comment on matters relating to establishing whether expenditure is within scope.

SP AusNet's position

SP AusNet would like to draw the Commission's attentions to the following concerns we have regarding to Commission's intentions and interpretations in relation to scope.

On page 13 of the Consultation Paper, the Commission addresses that ‘the decision on wether expenditure is within scope must be made by the Commission case by case’. As noted in section 2.1 of this response above SP AusNet considers that the question to be answered is not whether

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expenditure is within scope, but rather whether the expenditure is for activities that were **outside** scope at the relevant time.

Also on page 13 of the Consultation Paper, the Commission considers it is necessary for 'a list of expenditure against each item of scope' to be provided in the budget application, as well as in the charges and revised charges applications. SP AusNet believes that any consideration of the level of expenditure is dealt with in the second component of the test – whether the Commission can establish the expenditure is not prudent and for this the relevant considerations are set out in relevant clauses. Hence, in the questions of scope, SP AusNet is of the view that there is no role for a list of expenditure against each scope item. It appears to SP AusNet that the Commission has confounds the two tests. There is an initial test as to whether an activity is outside scope and a second test as to whether expenditure that is for such activities is not prudent.

On page 14 of the Consultation Paper, the Commission is willing to 'compare expenditure on a category-by-category basis across the distributor' when performing an initial review of if expenditure is within scope. Again, as discussed in the previous paragraph, any consideration of the level of expenditure is dealt with in the prudency test, not in the scope test. Further in regard to scope, Schedule 2 of the revised Order provides a list of activities reasonably required for the provision of Regulated Services and to comply with a metering regulatory obligation or requirement. The question of scope is determined by the need to undertake an activity, listed or otherwise, in order to provide the service or comply with an obligation. For each distribution business the scope will be different as each formulates its own approach to meeting the customer, business and environmental needs specific to its own situation. There will be different approaches in terms of technology choice, resourcing and work program approach. Businesses will need the flexibility to tailor their programs to suit their individual needs without the fear of not meeting a mythical 'one size fits all' scope solution.

Also on page 14 of the Consultation Paper, the Commission makes reference to business overheads and the need to demonstrate that no double counting should occur. Business overheads are a legitimate cost associated with 'in scope' activities and will be different for each business. Under the revised Order the onus rests with the Commission to establish that costs submitted are not within scope. Given that the Regulatory Accounting Statements and the applications for charges under the revised Order will both be subjected to independent audit and certification by auditors approved by the Commission, SP AusNet believes that double recovery should not be an issue.

2.4 Audit certification (section 2.3.2)

Stakeholders are invited to comment on form and nature of the proposed audit certification.

SP AusNet's position

SP AusNet is of the view that the Consultation Paper has not clearly recognised the fact that the Commission must approve the auditor if it has the relevant professional memberships, accreditation and there is a tri-partite agreement in place (5C.9 and 5I.3)

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2.5 Is expenditure a 'contract cost'? (section 2.4)

Stakeholders are invited to comment on matters relating to establishing whether expenditure is a 'contract cost'.

SP AusNet's position

Under the defined conditions of clauses 5C.3(b) and 5I.7(b)(iii) a contract cost is deemed prudent unless the Commission **establishes** that the contract was **not** let in accordance with a competitive tender process and:

- *it is more likely than not that the expenditure will not be incurred; or*
- *involves a substantial departure from the commercial standard that a reasonable business would exercise in the circumstances.*

Any information requirements placed on Distributors should be limited to meeting the conditions stipulated in the revised Order. Further, under clause 5.3 an application must set out the information and identify the documents upon which the distributor relies. SP AusNet will provide the information that relates expenditure to a contractual obligation. As long as a payment is made pursuant to a contractual obligation there is no need for any further information.

2.6 A competitive tender process (section 2.5)

Stakeholders are invited to comment on matters relating to establishing whether a competitive tender process has taken place.

SP AusNet's position

The relevant matters for the Commission in making a determination in which it establishes that a contract was not let in accordance with a competitive tender process are set out (5C.10 and 5I.9). They do not include the tender outcomes – the question is one of process not outcome. The Commission's states on page 17 of the Consultation Paper its "*view is where a tender does not result in competitive outcomes, it may be inferred that the tender process that was followed was not a competitive one*". It is SP AusNet's view that inference is not enough to **establish** something as a fact and that the revised Order is clear that the enquiry is limited to process, not outcomes.

On page 18 the Commission states, "*In determining whether a competitive tender process has taken place (or will occur), considerations the Commission will take into account include whether the distributor has demonstrated [certain things]*". The Commission does not consider and determine whether a competitive tender process has taken place and the distributor is not obliged to demonstrate that it has.

Under defined conditions, the task of the Commission is to **establish** that a contract was **not** let in accordance with a competitive tender process (clause 5C.3(b) and 5I.7(b)(ii)). Further, the onus is on the Commission to **establish** that a request for tender unreasonably imposed conditions or requirements that prevented or discouraged the submission of any tender (5C.10(c) and 5I.9(c)).

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The existence or otherwise of a clear business case demonstrating why contractual arrangements are likely to lead to better outcomes than internal provisions of services is irrelevant to the enquiry of whether a contract was not let in accordance with a competitive tender process. There is no relationship, indicative or otherwise, between the decision to go to contract and the competitiveness of the contract process. In any event, indications are not enough to *establish* something as a fact.

Similarly, matters going to consistency with procurement programs, approach to procurement, synergies from joint tendering and approach to competing technologies are irrelevant to whether a tender process was competitive.

In relation to contracts with existing related parties the only relevant question is whether the tender process was competitive.

In relation to tender outcomes, the Commission can properly have regard to material that goes to it establishing that a contract was not let in accordance with a competitive tender process. It cannot consider material that simply goes to its “confidence” in the process. Similarly the Commission can have regard to final contractual negotiations if those negotiations go to the question of it establishing that a contract was not let in accordance with a competitive tender process – if the incentive arrangements and risk allocation do not affect the competitiveness of the process, those matters are irrelevant.

The information the Commission says the distributors should provide can only relate to whether the tender process was competitive.

2.7 More likely than not that expenditure will not be incurred (section 2.6)

Stakeholders are invited to comment on matters relating to establishing whether it is more likely than not that expenditure will not be incurred.

SP AusNet’s position

Expenditure is non-prudent and can be disallowed by the Commission if the Commission establishes it is more likely than not that expenditure will not be incurred (Clause 5C.3 (b) (iii)). On page 21 of the Consultation Paper, the Commission refer to a ‘situation where the Commission considers’ rather than ‘establishes’. SP AusNet is of the view that the Commission’s interpretation has created a different test or condition from what is stated in the revised Order. Although it is helpful for the Commission to identify classes of expenditure which it will scrutinise, like expenditure items referred as ‘peripheral’ in the Consultation Paper, it is not the same as applying the test as required by the revised Order. Ultimately, the onus is on the Commission to **establish** that it is more likely than not that expenditure will not be incurred.

On page 22 of the Consultation Paper, the Commission has also stated that ‘peripheral’ expenditures include contingency amounts, reward and penalty payments. The Government’s objective of shifting from an Incentive model to a Cost Pass Through model was to eliminate contingencies and reward or penalty payments. Hence, SP AusNet believes the Commission’s concern with contingency amounts and reward/penalty payments is unnecessary in the context of Cost Pass Through.

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2.8 A substantial departure from the commercial standard a reasonable business would exercise (section 2.7)

Stakeholders are invited to comment on matters relating to establishing whether expenditure involves a substantial departure from the commercial standard that a reasonable business would exercise in the circumstances.

SP AusNet's position

SP AusNet supports the Commission's approach as stated in the Consultation Paper.

2.9 Existing contractual arrangements with related parties (section 2.8)

SP AusNet's position

In the first dot point on page 23 of the Consultation Paper, the Commission says "Any expenditure that is not certified by an audit report to be within scope must not be reflected in the budget". This is wrong: in the budget process the audit certification is relevant only to the actual expenditure in 2009 (5C.9). Moreover if that actual expenditure is not so certified the Commission must still consider it within the terms of the revised Order; the provision deems certified expenditure to be within scope, it does not say uncertified expenditure is outside scope (5C.9).

The Commission notes that where it determines that a competitive tender process has not been followed the revised Order does not mandate that the contract costs with related parties must be approved as part of a budget application. That is so, but the revised Order does mandate that it is the Commission that must **establish** that related party contract costs involves a substantial departure from the commercial standard that a reasonable business would exercise in the circumstances (clause 5C.3(b)(iv) and 5I.7(b)(ii)) and the Commission must take into account and give fundamental weight to the matters listed in clause 5I.8.

It is unclear how the matters the Commission lists are relevant to it establishing what is the commercial standard of a reasonable business, the circumstances of the distributor that are relevant to that standard and that a particular distributor has substantially departed from that standard.

2.10 Market observable parameters and the Statement of Regulatory Intent (section 3.2.2)

Stakeholders are invited to comment on the methodology the distributors should use to calculate the market observables for their February 2009 budget applications.

SP AusNet's position

It is unclear why the Commission refers to WACC calculation when making a budget application in February 2009. The WACC only becomes relevant when a charges application is to be made.

The Final Decision of AER's Statement of Regulatory Intent (SRI) will be published on 31 March 2009 and the charges application will be made by the Distributors by 1st June 2009. This will allow the distributor enough time to incorporate outcomes from the Final Decision of SRI in calculating a proposed charge. It will also allow the Commission to use the Final Decision outcomes in making a Charges Determination.

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2.11 Non market observable parameters (section 3.2.3)

Stakeholders are invited to comment on the methodology the distributors should use to determine equity raising costs.

SP AusNet's position

The revised Order requires that equity raising costs for the initial AMI WACC period shall be recovered as a maintenance and operating expense. SP AusNet supports a position that actual costs rather than benchmarks be used where these are known, eg in the period prior to the Start Date, however where equity raising cost are reasonably expected to be incurred a benchmark approach as previously used would seem appropriate.

2.12 Ensuring a 'like for like' comparison (section 3.3.1)

Adjusting Benchmarks:

Stakeholders are invited to comment on how the benchmarks costs should be adjusted for the purposes of the ECM, particularly in relation to metering data service IT costs.

SP AusNet's position

In principle, SP AusNet agrees with the Commission's approach of adjusting benchmarks set out in the current price determination, which is consistent with what is taken in previous distribution price review. However, the details and methodologies of the adjustments to be made, eg meter volumes to use, are not clearly stated in the Consultation Paper. SP AusNet believes this should be further discussed through a specific ECM consultation workshop or forum between the Commission and the Distribution Businesses.

Reported Costs:

Stakeholders are invited to comment on matters relating to ensuring that reported costs represent the true value of costs incurred.

SP AusNet's position

Clause 5D.6 provides that an application by a distributor seeking a determination pursuant to clause 5D must include:

- (a) details of actual expenditure attributable to Regulated Services for the years 2006 and 2007 as derived from the distributor's Regulatory Accounting Statements; and
- (b) details of actual expenditure attributable to Regulated Services for the year 2008 as derived from the distributor's Regulatory Accounting Statements.

Actual expenditure for the purposes of clauses 5D.4(d) to (g) [and for 5D.4(c)] is to be ascertained from the information included in the Regulatory Accounting Statements. To the extent the value of that expenditure is clear from the Regulatory Accounting Statements then it would appear the Commission is required to accept that value.

In regard to gains and losses to 2008 inclusive, SP AusNet understands from section 3.3.2 of the Consultation Paper that it is the Commission's intention that 5 year retention components of those gains and losses which would normally have been applied to the revenue requirements for 2009-

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2013, will be aggregated, adjusted for the time value of money and applied to the revenue requirement of the 2010 charges.

2.13 Negative carryovers (section 3.3.3)

Stakeholders are invited to comment on whether there should be the potential for a net negative carryover from the 2006 to 2008 period.

SP AusNet's position

SP AusNet notes the Commission's proposed approach to net negative carryover, which appears consistent with the requirements of clause 5D.4(c).

2.14 Calculation of taxation in the building blocks (section 3.4.2)

Stakeholders are invited to comment on matters relating to establishing the benchmark cost of tax in respect of the AMI rollout.

SP AusNet's position

Under this section of the Consultation Paper, the Commission proposes to use gamma value as per the AER's most recent Statement of Regulatory Intent when establishing the benchmark for corporate Tax as per Section 4.1(f)(v). This seems to be a general assumption the Commission is making. SP AusNet believes it is only legitimate to apply this assumption when calculating tax benchmarks for years from 2009 onwards. It seems to be inappropriate to SP AusNet to recalculate the historical or benchmark amounts for prescribed metering services pre 2009 using this assumption rather than that of the current price determination.

Hence, SP AusNet believes that the gamma value consistent with what is adopted in the current price determination, which is 0.5, should continue to be used for calculating the following pre-2009 tax related items:

- The benchmark tax in respect of prescribed metering services to be included as part of the net actual building block costs(5D.4 (a)); and
- The total amounts by which the DUoS tax wedge was reduced as a result of the consolidation of taxation for both DUoS and metering in the Current Price Determination (5D.4 (b)).

2.15 Value of the metering asset base (section 3.5)

SP AusNet's position

In the dot points at the end of the page 37 of the Consultation Paper, the Commission states it will revise the metering asset base in establishing revised charges for 2011 to reflect "actual capital expenditure to 2009 (to the extent it is within scope and prudent)". The words in parentheses are incorrect.

The term Capital Expenditure_{2006-SD} in the formula for the calculation of the opening asset base on the Start Date is "the *actual* capital expenditure between 1 January 2006 and 31 January 2008 inclusive" (emphasis added) (see clause 5D.2). Also, the note to clause 5D.5 provides that

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“actual expenditure under clause 5D.4(d) to (g) [relating to AMI] must be allowed, except to the extent the Commission establishes it is not attributable to the provision, installation, maintenance and operation of advanced metering infrastructure and associated services and systems for the period 1 January 2006 to 1 January 2009, *“and will not be the subject of review at any time.”* The note also states that any expenditure not so attributable may be attributable to other regulated distribution services.

In respect of clause 5D.4, the variables in respect of which the Commission has an express discretion, apart from determining whether an item is attributable to AMI (in relation to which it bears the onus), is determining the value of the items 5D.4(a) to (c). These are not discretions to reject expenditure on the basis it is not prudent but only the discretion to determine whether the distributor has correctly calculated the values for these three variables.

There is no basis for the Commission to follow a different approach for the opening asset base for the revision to 2011 charges.

2.16 Regulatory depreciation (section 3.6)

Stakeholders are invited to comment on the proposal to use straight line depreciation to determine the amount of regulatory depreciation.

SP AusNet’s position

SP AusNet agrees with the Commission on its approach of depreciation calculation.

2.17 Price controls (section 4.2)

Stakeholders are invited to comment on the additional pricing principles, if any, to which regard should be given when considering distributors’ charging proposals.

SP AusNet’s position

SP AusNet does not support the retention of the Pricing Principles set out in section 4.2 of the Consultation Paper, or the inclusion of any additional Pricing Principles. SP AusNet considers that the revised Order is prescriptive in the form of cost recovery to be applied, ie cost pass through based on audited, actual costs and in how charges are to be applied to customers and service categories for regulated services delivered.

2.18 Exit and restoration fees (section 4.3)

SP AusNet’s position

On page 42 of the Consultation Paper, the Commission says “The Commission considers that, if the derogation is ultimately approved in its current form, exit fees and restoration fees would not be payable during the initial AMI budget period. Accordingly, it would be unnecessary for a determination on those fees to be made during this period.”

SP AusNet agrees that approval of the derogation may limit the need for exit and restoration fees, however, should a distributor make an application for those fees to be set the Commission must make a determination.

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Further, SP AusNet considers that exit and restoration Fees applied as outlined in the Consultation Paper results in some gaps with respect to those customers whose usage has varied such that it crosses the boundary of 160MWh. SP AusNet believes that where appropriate:

- Exit fees should also be payable where a customer now exceeds 160MWh but was previously supplied as a less than 160MWh customer and the Distributor is the Responsible Person and the Retailer is to become the Responsible Person.
- Restoration fees should also be payable where a customer now uses less than 160MWh but was previously supplied as a greater than 160MWh customer and the Retailer was the Responsible Person and a Distributor supplied meter is required.

2.19 Unmetered supplies (section 4.4)

Stakeholders are invited to comment matters relating to establishing that charges for unmetered supplies are consistent with the revised Order.

SP AusNet's position

SP AusNet notes the requirements of the revised Order and the Commission's proposed approach to the establishment of charges for unmetered supplies.

The reference to Traffic Lights on page 42 of the Consultation Paper is irrelevant as Meter services to unmetered connection points apply only to Public Lighting (Street Lights) in Victoria and then only those that are defined as customers in the Public Lighting Code.

2.20 Information requirements (section 5)

SP AusNet's position

As previously notes, SP AusNet is concerned at the interpretation placed on key aspects of the revised Order, including information requirements. Information requested by the Commission must be relevant to its limited task. It must relate to whether a cost is a contract cost, the competitiveness of a tender process, whether it is more likely than not expenditure will not be incurred or it will be incurred but doing so involves a substantial departure from the commercial standard that a reasonable business would exercise in the circumstances.

Information as to the level of expenditure is irrelevant to the question of whether an activity is outside scope and, in particular, templates that are directed to "a list of expenditure against each scope item" have no foundation in the revised Order for the purposes of determining if expenditure is outside scope (even though it may be relevant to reducing a budget by the amount for which an activity is established to be outside scope).

Information the Commission says the distributors should provide in relation to a tender process can only relate to whether the tender process was competitive.

The matters listed on page 47 of the Consultation Paper in relation to forecasts are simply not relevant where the forecast cost is a contract cost.

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2.21 Data Templates (section 5.2.1)

Stakeholders are invited to comment on the draft data templates.

SP AusNet's position

In this section the Commission has indicated that the data template is required to be completed and submitted for the initial budget application. The Commission also indicates that the templates to be filled in for the initial charges application will be consistent with the one used for budget application and may be amended in light of the experience with the budget applications.

In general, our understanding is that there should be a budget template and a charges template. The budget template would capture all the budget expenditure from 2009 to 2011 for the relevant budget period only. The charges template will where appropriate, link to the expenditure items in the budget template. Although it is not clearly stated in the Consultation Paper, the charges template should also allow actual expenditures to be entered and capture other inputs required to calculate revenue and charges. The charges template to be used in future revised charges applications should be consistent with the one used in Initial charges applications in principle. SP AusNet welcomes the opportunity to discuss the charges template with the Commission in more detail through future consultation processes.

SP AusNet would like to draw to the Commission's attention the following issues regarding to the proposed template for budget purpose:

Design of the Template

The Commission has stated its intention to apply the scope check at a category by category basis, a position not supported by SP AusNet as previously stated. We further understand that the Commission envisages using a template to capture information in a way which facilitates the application of a 'Scope Test'. However, SP AusNet does not believe the proposed template would meet this purpose.

The level at which expenditures are categorised or classified in the template are not consistent with what those in SP AusNet's Scope Statement gazetted with the revised Order. Further, SP AusNet's financial system is not designed to accommodate reporting requirements at the level of detail or in breakdowns as per the template. It will be extremely difficult to complete the template with the current financial practices of SP AusNet.

Also, the terminologies used in the proposed template are not consistent with the Scope Statement. It is very difficult to interpret the meaning of each terminology and the intention of the categorisation without any associated guidance documents.

SP AusNet believes that a cost template, or a budget template, in the context of the revised Order, should not be impacted by the change of regulatory framework from incentive to cost pass through. The change of framework should be most reflected through the design or setting of charges template.

Hence, rather than creating all the new definition and categories under the proposed template, SP AusNet recommends the Commission to continue to use most of the set out of the old costing input template designed for the December 2007 submission. It appears to us that the level of categorisation in the old template is still appropriate and consistent with the Scope Statement.

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2006 to 2008 Expenditure

The revised Order does not clearly specify when the business is required to supply the Commission with 2006 to 2008 actual expenditure. As such information is not required until the initial charges application for 2010 and 2011 is made, it would therefore appear that the business is not required to provide the 2006 to 2008 actual expenditure together with the budget application at 27 February 2009.

In section 2.1.2 of the Consultation Paper, the Commission requires actual expenditure from 2006 to 2008, to the extent that it was not already provided, to be provided by 1st June 2009. It reconfirmed that date in section 5.3, but referred to the initial budget submission. However, the information template issued for Budget purposes requires input of 2006 to 2008 expenditure together with the budget expenditure for 2009 to 2011. It is unclear to SP AusNet the Commission's expectation of the timing in receiving 2006 to 2008 actual expenditures given the above inconsistencies.

SP AusNet believes that it would be more appropriate to submit this expenditure as part of the initial charges application at 1 June 2009, including 2008 expenditure which is consistent with the audited amount in the 2008 Regulatory Accounting Statement (RAS) submitted to the Commission at end of April.

The initial budget application needs to be submitted before the 2008 RAS are submitted. The 2008 expenditure may be available at the time of the initial budget submission but will be subject to approval and audit. It will not necessarily reflect the final number required to be used to set charges. The Commission will need to include the same actual expenditure reported in the RAS of 2006 to 2008 when setting charges for 2010 and 2011.

Therefore, even if the 2006 to 2008 expenditure could be submitted together with the initial budget application, a further submission on 2008 expenditure will be required to align with the RAS outcome when making the initial charges application. Given the above, providing 2006 to 2008 actual expenditure as a part of the initial budget application appears unnecessary and meaningless.

2.22 Timeframes for initial AMI budget period (section 5.3)

Stakeholders are invited to comment on the proposed regulatory timeframes.

SP AusNet's position

In table 5.1 of the Consultation Paper, second item the Commission states that the initial charges application is to be made on 27 February 2009. This should read 1 June 2009.

Also the Commission states on page 49 of the Consultation Paper that:

"The Commission proposes that this information be provided to the Commission at the same time as the initial budget application – i.e. 1 June 2009".

We believe that the Commission is referring to the initial charge application rather than the initial budget application.