

Friday, 31 March 2023

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Dear Dr Funston

### **Preliminary Information Order – Network information requirements review**

Thank you for the opportunity to respond to the AER's Preliminary Annual Order – Transmission Network Service Providers (TNSP)<sup>1</sup> (Preliminary Order and data requirements) published on 25 January 2023 and contribute to the broader review process.

As explained in our submission on the AER's Discussion Paper,<sup>2</sup> we support:

- consolidating the existing annual Regulatory Information Notices (RINs) and information requests into a single Regulatory Information Order (RIO) and streamlining data requirements to improve efficiency by removing duplication and only collecting data that is needed for current or future reporting
- ongoing and regular reviews of our reporting requirements to ensure that they remain fit for purpose in light of the significant and ongoing changes in Australia's energy system as it transitions to a low carbon future, and
- greater information sharing to increase transparency on costs, revenues and performance outcomes in order to promote stakeholder participation in future regulatory processes and decision making.

The AER's Preliminary RIO largely promotes the above outcomes, although we are concerned that some aspects of it, including the new information reporting requirements, do not contribute to these outcomes and will increase costs without any benefit for consumers.

We endorse Energy Networks Australia's (ENA's) submission on the AER's Preliminary RIO and highlight the following matters:

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<sup>1</sup> AER, [Preliminary annual RIO – Network information requirements review](#), January 2023.

<sup>2</sup> AER, [Network information requirements review – Discussion Paper](#), March 2022.

1. **Commencement date** – Given that the Final RIO will only be published in September 2023, we consider that its commencement should be delayed by one year so that it starts on 1 July 2024. This will also allow:
  - the AER to incorporate feedback in the Final RIO and accompanying workbooks, and
  - network service providers (NSP) to ensure that their existing systems and processes are able to address the new information requirements or introduce new or modified systems and processes as required.
2. **Basis of reporting asset volumes** – We consider that non-financial information, such as asset volumes, should continue to be reported on an ‘as commissioned’, rather than ‘as incurred’ basis, because reporting asset volumes on an ‘as incurred’ basis is not meaningful. In order to derive asset unit rates, expenditures should also continue to be reported on an ‘as commissioned’ basis. Reporting asset volumes on an ‘as incurred’ basis would require a significant increase in resources, which in turn would increase our reporting costs, without any benefit for consumers.
3. **Network safety information** – The safety of our communities, customers, employees and delivery partners is our top priority. We currently report all safety incidents to IPART, which is the safety and reliability regulator for NSW electricity networks. We support this reporting, which assists to promote and maintain network safety. The RIO introduces new human safety reporting requirements. Based on the AER’s 2022 Electricity Network Performance Report, we understand that the AER intends to use this information to determine our future expenditure allowances. We do not consider that this would be appropriate because the narrow scope of safety information collected by the RIO could not be relied on to meaningfully inform network outcomes, expenditures or allowances. The AER’s 2022 Electricity Network Performance Report<sup>3</sup> acknowledges the limitations in use of this data.
4. **RIT-T and contingent project reporting** – The Preliminary RIO introduces new expenditure reporting for individual RIT-T and contingent projects. We do not consider that expenditure reporting at this granular level is consistent with the ex-ante framework under the National Electricity Rules (NER). We also note that it would impose significant additional reporting costs given that we are required to undertake RIT-Ts for almost all of our projects.
5. **Independent audit and review requirements** – The Preliminary RIO increases the scope and level of independent audit and review compared to the existing RIN requirements. In particular, it:
  - expands the audit and review scope to include a broader range of information such as our profitability measures data as well as other new information collected under the Preliminary RIO, and
  - introduces a higher standard of audit for actual financial information from ASRE 2405 to ASA 805.

Independent advice from our auditors PwC is that the Preliminary RIO will increase our audit costs by approximately 30 per cent and take an additional two weeks to complete. We consider that the RIO should maintain the existing audit requirements for financial information (actual and estimated) which are based on ASRE 2405.
6. **Annual submission date** – We consider that an additional month is required to respond to the Preliminary RIO given the additional reporting and audit requirements. On this basis, we propose an annual submission date of 30 November (rather than 31 October).

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<sup>3</sup> AER, [2022 Electricity network performance report](#), July 2022, p.64

7. **Obsolete Service Target Performance Incentive Scheme (STPIS) reporting** – Currently, we comply with the STPIS V5 and therefore consider that data requirements aligned with earlier versions of the STPIS (i.e. V4 and earlier) should be removed. These include:
- Data category 05A Service Performance workbook in the 'STPIS outcome' sheet; and
  - Data category 05B Service Performance workbook – entire workbook.
8. **Unused data** – We consider information that is not used by the AER for current or future reporting should be removed from the Final RIO. For example:
- Connection points in 'Connections' sheet of Data category 02 Operational outputs, which is currently reported in EB RIN 3.4.2, and
  - Expenditures in 'Total expenditure' sheet of Data category 09 Revenue and Financial statements, which is currently reported in CA RIN 2.12.

Further detail on each of the above is provided in **Attachment A**.

### Closing

We look forward to continuing to work with the AER as it finalises the RIO to balance the needs and interests of the AER, network businesses and consumers. If you have any questions on this letter, please feel free to contact me or [REDACTED] Regulatory Reporting Manager at [REDACTED].

Yours sincerely

[REDACTED]

Stephanie McDougall  
**General Manager of Regulation**

## Attachment A: Data requirement clarifications

The table below list the data requirement clarifications on the Preliminary RIO Transmission Network Service Providers' Data Category workbooks.

Table 1: Data requirement clarifications on the Preliminary RIO

RIO Workbook	RIO sheet in Workbook	RIO table	RIO data	New / amended / existing information	Clarification
Data category 02 – Operational outputs	Other outputs	Asset replacement activities	All data	Amended information	<p>In Category Analysis (CA) RIN 2.2, we currently report asset replacement expenditure and corresponding asset volumes on an “as commissioned” basis. This enables appropriate derivation of unit rates.</p> <p>Section 1.6.2 of AER’s Appendix A Data workbook instructions states asset volumes must be reported on an “as incurred basis”. This will increase the resources required to respond to the RIO as all projects in progress (instead of projects that have been commissioned) are to be reported.</p> <p>We believe it may also result in skewed unit rates for multi-year projects. For clarity, we are seeking examples of asset volumes being reported on “as incurred” basis for multi-year projects. This may include a worked example showing how “as incurred” asset volumes will be assigned to design costs incurred in the first year and procurement and installation costs incurred in the second year.</p> <p>Notwithstanding, we propose asset volumes in the RIO to be reported on “as commissioned” basis to reduce the significant resourcing burden. This will require amendment to section 7.2.1 of AER’s Appendix A Data workbook instructions as it currently requires “as incurred” replacement capex in the “Capex by purpose” sheet of the Data category 07 – Capital expenditure workbook.</p>
Data Category 03 – Network metrics	Network Assets – Volume	Substation Reactive Plant	Other	New information	<p>As defined in the “Definitions” sheet, substation reactive plant includes synchronous condensers. However, there is no line item for synchronous condensers in the “Network Assets – Volume” sheet. We would like to clarify synchronous condensers are to be included under the “other” line item in a similar fashion to the SVCs, capacitors and reactors line items.</p>
Data Category 03 – Network metrics	Capacity	Circuit capacity	Estimated overhead network weighted average MVA	Existing information	<p>We currently report estimated overhead MVA capacity in our Economic Benchmarking (EB) RIN 3.5.1.3 based on:</p> <ul style="list-style-type: none"> <li>the summer or winter rating depending on when the maximum demand occurs in the regulatory year; and</li> </ul>

RIO Workbook	RIO sheet in Workbook	RIO table	RIO data	New / amended / existing information	Clarification
			capacity by voltage class		<ul style="list-style-type: none"> <li>terminal equipment constraints.</li> </ul> We would like to confirm the continued use of the above methodology under the RIO.
Data Category 03 – Network metrics	Capacity	Selected Asset Characteristic	Substation reactive plant by: reactive capacity	Amended information	Reactive capacity categories 1-5 have not been defined. We would like to confirm that we could map reactors, synchronous condensers, shunt capacitors, static VAR compensators and dynamic VAR compensators to any of these categories.
Data Category 03 – Network metrics	Age	Asset lives	Estimated service life of assets	Existing information	In our EB RIN 3.3.4, our estimated service life of new assets is based on: <ul style="list-style-type: none"> <li>a weighted average of the individual asset classes within the asset category in EB RIN 3.3.4. This is similar to the asset life estimation method in section 3.5.5 of AER's Appendix A Data workbook instructions.</li> <li>the standard life of the asset class in our PTRM as the expected service life of the new asset.</li> </ul> Section 3.5.3 of AER's Appendix A Data workbook instructions states the expected service life of new asset may not align with the asset's financial or tax life. We would like to confirm the continued use of the PTRM asset class standard life as the expected service life of new assets.
Data Category 03 – Network metrics	Age	Asset lives	Estimated residual service life	Existing information	In our EB RIN 3.3.4, the estimated residual service life is calculated using the RAB Opening Value for the year divided by Straight line Depreciation for the year for each asset category in EB RIN 3.3. We note section 3.5.4 of AER's Appendix A Data workbook instructions require estimated residual service life to be calculated from the end of the reporting period. To give effect to this requirement, we will use the RAB Closing Value instead of the Opening Value in our response to the RIO. Note this shift from RAB Opening Value to Closing Value will impact the comparison of our first reporting year under the RIO with the previous reporting year under the EB RIN.
Data Category 03 – Network metrics	Terrain	Vegetation maintenance	Average number of trees per maintenance span	Existing information	The EB and CA RINs define a tree as over 3m in height. We would like to confirm that the RIO will adopt the same definition of a tree as the EB and CA RINs.

RIO Workbook	RIO sheet in Workbook	RIO table	RIO data	New / amended / existing information	Clarification
Data category 06 – Operating expenditure	Audited Statutory accounts	Income statement - expenditure	Allocated opex	New information	<p>In our Regulatory Accounts, we currently:</p> <ul style="list-style-type: none"> <li>do not split opex into directly attributable opex and allocated opex</li> <li>allocate support costs to direct costs on a pro-rata basis.</li> </ul> <p>The RIO requires opex to be split into directly attributable opex and allocated opex. We are seeking clarification from the AER on the method to determine indirect expenditure.</p> <p>We consider that this change in reporting may impact our opex trend analysis.</p>
	Regulatory accounts (PTS)	<ul style="list-style-type: none"> <li>Income statement - expenditure</li> <li>Opex by category</li> </ul>	<ul style="list-style-type: none"> <li>Allocated opex</li> <li>Indirect expenditure column (cells L17:L19)</li> </ul>		
Data category 06 – Operating expenditure	<ul style="list-style-type: none"> <li>Audited Statutory accounts</li> <li>Regulatory accounts (PTS)</li> </ul>	Corporate overhead expenditure	Easement tax	New information	Easement tax is required under section 24 of the Victorian Land Tax Act 2005. As easements are not levied in NSW and our prescribed transmission services do not relate to assets in Victoria, easement tax is not applicable to us. We are seeking AER to confirm that we can report null for easement tax.
Data category 06 – Operating expenditure	Audited Statutory accounts	Service categories columns – prescribed transmission services, negotiated transmission services, non-regulated transmission services and not allocated	All data	New information	We would like to confirm the opex for NSW Electricity Infrastructure Investment (EII) Act is to be classified under the “not allocated” service category. This will enable reconciliation with our statutory accounts.
Data category 06 – Operating expenditure	RIT & Contingent	RIT expenditure	All data	New information	<p>We would like to clarify:</p> <ul style="list-style-type: none"> <li>RIT-T expenditure is to be reported only after the RIT-T has concluded</li> </ul>

RIO Workbook	RIO sheet in Workbook	RIO table	RIO data	New / amended / existing information	Clarification
Data category 07 – Capital expenditure	Capex by purpose	RIT project expenditure			<ul style="list-style-type: none"> <li>RIT-T expenditure to be reported on an “as incurred” basis. This will require significant resources to report all in progress RIT-T projects.</li> <li>will ISP RIT-T projects be included? If so, will the expenditure be reported only after the AER has made a final decision on the CPA?</li> <li>will the reported RIT-T as incurred expenditure include: <ul style="list-style-type: none"> <li>Costs associated with undertaking the RIT-T; and</li> <li>Project costs after the RIT-T has concluded.</li> </ul> </li> </ul> <p>We consider that this will require significant resources as vast majority of our projects are subject to a RIT-T.</p>
Data category 06 – Operating expenditure	RIT & Contingent	Contingent project expenditure	All data	New information	All contingent projects will undergo a RIT-T. We would like to clarify whether contingent project costs are to be reported under the RIT table. If so, please detail how the project costs will be split between the RIT and contingent tables in Data category 06 and 07 workbooks.
Data category 07 – Capital expenditure	Capex by purpose				
Data category 07 – Capital expenditure	-	-	-	-	We would like to confirm the treatment of capex that we incur in relation to prescribed transmission services for specific ISP projects. We will report capex for these projects in the year in which it is incurred, notwithstanding that in some cases, this may precede the AER publishing its Final Determination for the relevant Contingent Project.
Data category 07 – Capital expenditure	Capex by asset class	Immediate expensing of capex	All data	New information	<p>We would like to clarify whether the tax or accounting treatment is to be applied to immediate expensing of capex.</p> <p>We submit our tax return in February each year. This means if immediate expensing of capex is to be based on our tax return, it will be estimated numbers which are subject to change.</p> <p>We would like to clarify with the AER the use case for immediate expensing of capex, in particular whether it will be assessed against our TAB or RAB.</p>
Data category 07 – Capital expenditure	Capex by purpose	Capex by purpose	Indirect expenditure	New information	We currently report capitalised overheads as support costs associated with capex. This will mean capitalised overheads in cells J14 and J15 will be nil as these costs will be split across cells J7:J13. We would like to confirm our interpretation with the AER.

RIO Workbook	RIO sheet in Workbook	RIO table	RIO data	New / amended / existing information	Clarification
Data category 07 – Capital expenditure	Capex by purpose	<ul style="list-style-type: none"> <li>Replacement capex by asset category</li> <li>Connection project expenditure</li> <li>Non-network</li> </ul>	All data	Amended information	<p>We currently report capex and corresponding asset volumes in the EB and CA RINs on an “as commissioned” basis. This enables appropriate derivation of unit rates.</p> <p>To reduce the significant resourcing burden, we propose the reporting basis for capex in the RIO to continue to be on “as commissioned” basis.</p>
Data category 07 – Capital expenditure	Capex by purpose	Capex by purpose	ICT	New information	<p>We currently classify parts of SCADA in the control room as ICT.</p> <p>Under the RIO, ICT is defined as excluding all costs associated with SCADA and Network Control assets that exist beyond gateway devices at corporate offices. See definitions sheet of Data category 07 capital expenditure. Network monitoring and control will include activities and costs associated with technical/IT for SCADA and other network operation systems as defined in Data category 06 Operating expenditure workbook.</p> <p>As this recategorisation will impact our ICT trend analysis, we would like to confirm SCADA activities and associated costs should be recategorised from ICT to network monitoring and control as defined under the RIO.</p>
Data category 07 – Capital expenditure	Capex by purpose	Non-network	ICT – recurrent and non-recurrent	New information	<p>Under the RIO, ICT expenditure is to be reported by recurrent and non-recurrent categories. The RIO refers to AER’s 2019 non-network ICT capex assessment approach, which lists three categories of non-recurrent ICT expenditure. However, it does not list the categories for recurrent ICT expenditure. We would like to seek clarification on the categories for recurrent ICT expenditure.</p>
Data category 07 – Capital expenditure	Augex	-	-	No	<p>We would like to clarify whether there should be another sheet for “Augex – substations”, similar to the “Augex – Lines” sheet.</p>
Data category 08 – Asset base values	Regulatory accounts (PTS)	<ul style="list-style-type: none"> <li>Asset base by asset group – partially as incurred</li> </ul>	Indicative total regulatory asset base roll forward (within period)	New information	<p>The indicative asset base roll forward (within period) is defined in the workbook as the annual asset base roll forward based on the opening asset base value used by the AER to model revenue requirements in a final revenue determination (using the PTRM).</p> <p>We would like to clarify:</p> <ul style="list-style-type: none"> <li>Use case</li> </ul>



RIO Workbook	RIO sheet in Workbook	RIO table	RIO data	New / amended / existing information	Clarification
		<ul style="list-style-type: none"> <li>Asset base by asset group – as commissioned</li> </ul>			<ul style="list-style-type: none"> <li>Should the indicative asset base roll forward data be based on AER's revenue determination PTRM or the latest AER's PTRM that has been updated to reflect an approved contingent project application?</li> <li>Method to be used to complete each data variable under the indicative total regulatory asset base roll forward table (e.g. the inflation addition and capital contribution variables). It will be useful if a mapping from the PTRM to each data variable is provided.</li> </ul>
Data category 08 – Asset base values	Regulatory accounts (PTS)	Benchmarking asset base by asset category – Group 3 assets adjustment	All data	New information	Based on the "Definitions" sheet, Group 3 assets seem only applicable to AusNet Services. We would like to confirm we are exempt from completing the table for Benchmarking asset base by asset category – Group 3 assets adjustment.
Data category 09 – Revenue and Financial statements	<ul style="list-style-type: none"> <li>Audited Statutory accounts</li> <li>Regulatory accounts -PTS</li> </ul>	Income statement	Network operations and maintenance - direct expenditure		<p>In our Regulatory Accounts, we currently:</p> <ul style="list-style-type: none"> <li>do not split network operations and maintenance into direct expenditure and support costs</li> <li>allocate support costs to direct costs on a pro-rata basis.</li> </ul> <p>The RIO requires network operations and maintenance direct expenditure to exclude overheads. We are seeking clarification from the AER on the method to determine network operations and maintenance direct and other expenditure.</p> <p>Note this change in reporting may impact our opex trend analysis.</p>