



# Response

to the

QCA Draft Decision on Costs for Implementation of  
QUEENSLAND GAS FRC

29 February 2008

## Table of Contents

1	Summary .....	1
2	Purpose of this Document .....	2
3	Response to Specific issues Raised in the QCA's Draft Decision .....	2
3.1	Core Systems Capital Expenditure .....	2
3.1.1	IT Infrastructure .....	2
3.1.2	Contingency .....	4
3.1.3	Cordaptix System Upgrade in 2009-10 .....	4
3.1.4	Envestra's 2006 Revised Access Arrangement.....	5
3.1.5	Core Systems Depreciation.....	7
3.2	Core Systems Operating Costs.....	8
3.2.1	Staffing.....	8
3.2.2	Office Costs and Training Overheads .....	9
3.3	Telemetry Capital Expenditure .....	9
3.4	Telemetry Operating Expenditure .....	10
3.4.1	Operations and Maintenance .....	10
3.4.2	Software Upgrades.....	12
3.5	Envestra's Proposed Tariffs .....	12
3.5.1	Proposed Tariff Structure .....	12
3.5.2	Proposed Target Revenue .....	12

## 1 Summary

This document is Envestra's response to the Queensland Competition Authority's (QCA) Draft Decision for the recovery of costs associated with the introduction of full retail competition (FRC) into the Queensland gas market on 1 July 2007.

Envestra used best endeavours to produce the lowest cost solution that was capable of being implemented by 1 July 2007. The Authority's Draft Decision recognised the constraints within which Envestra was required to implement its FRC solution and approved Envestra's FRC solution choice as follows:

*"Given the constraints placed on Envestra and the options available, the Authority is satisfied that the choice of FRC system adopted by Envestra meets the requirements of the Code." (DD page 7)*

In preparing a response to the Draft Decision, Envestra has updated its costs to take account of actual expenditures given the passage of time. The main reasons why the actual expenditure outcomes are lower than Envestra's original submission are:

- Lower take up of contingency allowances relative to forecast
- Lower IT Infrastructure costs due to upgrading of existing hardware
- Synergies and economies delivered through previous FRC implementation experience, and
- Deduction of estimated Access Arrangement allowances as reflected in the Draft Decision.

The following table includes actual FRC costs to the end of January 2008 and forecasts to 2010/11, that Envestra believes the Authority should approve.

\$m (Dec 2006)	2005/06 (actual)	2006/07 (actual)	2007/08 <i>(Inc Actuals to 31 Jan '08)</i>	2008/09	2009/10	2010/11	Total Cost
IT Capex	0.0	6.9	2.1	0.8	1.9	0.0	11.7
IT Opex	0.0	0.0	1.4	1.1	1.1	1.1	4.8
Telemetry Capex	0.1	0.6	0.4	0.0	0.0	0.0	1.2
Telemetry Opex	0.2	0.2	0.3	0.5	0.5	0.5	2.2
AA Submission	0.0	0.0	0.0	(5.4)	0.0	0.0	(5.4)
<b>Total</b>	<b>0.3</b>	<b>7.7</b>	<b>4.2</b>	<b>(2.9)</b>	<b>3.6</b>	<b>1.7</b>	<b>14.5</b>

The table below set out the Authority's Draft Decision.

### QCA Draft Decision (22 November 2007)

\$m (Dec 2006)	2005/06 (actual)	2006/07 (actual)	2007/08	2008/09	2009/10	2010/11	Total Cost
IT Capex	0.0	6.4	1.8	0.0	0.0	0.0	8.2
IT Opex	0.0	0.0	1.3	1.1	1.1	1.1	4.5
Telemetry Capex	0.0	0.7	0.1	0.1	0.0	0.0	0.9
Telemetry Opex	0.1	0.1	0.2	0.2	0.2	0.2	1.1
AA Submission				(5.4)			(5.4)
<b>Total</b>	<b>0.1</b>	<b>7.2</b>	<b>3.4</b>	<b>(4.0)</b>	<b>1.3</b>	<b>1.3</b>	<b>9.3</b>

Envestra disagrees with some aspects of the Draft Decision, with the key issues being:

- Aspects relating to Envestra's 2006 revised Access Arrangement
- Core systems capital expenditure
- Core systems depreciation
- Core systems operating expenditure
- Telemetry capital expenditure, and
- Telemetry operating expenditure

This submission outlines why the Authority should reconsider the above aspects of the Draft Decision.

## 2 Purpose of this Document

The Queensland Government mandated the introduction of FRC to the gas industry. As a consequence, Envestra (as well as other market participants) were required to implement an appropriate solution to support FRC on 1 July 2007.

As a regulated business under the Access Code, Envestra can only recover costs through appropriate regulatory mechanisms. In Envestra's case, it was anticipated that contestability would occur during the Access Arrangement period 2006/7 - 2011/12. Envestra's Access Arrangement consequently allows for a pass-through of costs associated with FRC through the "impost" mechanism. The definition of "impost" in the Access Arrangement (section 11, Glossary) is:

- (a) any tax or other statutory charge; or
- (b) any cost resulting from a major change in government policy (e.g. costs associated with the introduction of full retail contestability)

*where the direct costs of the event will have a material effect on the efficient delivery of Reference Services.*

As set out in section 7.1 of Envestra's Access Arrangement Information, no costs were allowed for in Envestra's approved forecasts for the introduction of FRC, as those costs were to be recovered through the impost mechanism.

This document constitutes the response to the QCA's Draft Decision for the recovery of Envestra's costs incurred to date and those costs expected to be incurred up to 30 June 2011 for the implementation and on-going operation of the required FRC systems.

## 3 Response to Specific issues Raised in the QCA's Draft Decision

In its Draft Decision, the QCA has addressed many of the issues raised by Envestra. However, in a number of cases, Envestra believes that the Commission has erred.

Envestra's key concerns are discussed in this section.

### 3.1 Core Systems Capital Expenditure

#### 3.1.1 IT Infrastructure

##### QCA Draft Decision

*"In its report, PBA identified a number of capital expenditure items that it considered prudent and reasonable. The Authority accepts this assessment except for costs relating to IT infrastructure. Envestra included an amount of \$400,000 to purchase servers, data storage and additional software licenses not included elsewhere. The hardware costs included in this item appear excessive and the Authority will seek further explanation of these costs following release of this Draft Decision. However, for the purpose of this Draft Decision, the costs have been included on the basis that PBA had initially assessed them as reasonable."*

(refer DD page 12)

## Response

Envestra disagrees with the QCA's view that the hardware costs included in this item are excessive. Envestra was able to obtain the best price for infrastructure purchases mainly due to established discounted contract arrangements in place. Envestra procured IT systems for the Queensland FRC project through its operating contract with Origin Energy, a company that is 15 times larger than Envestra. The purchasing power from using the larger company Origin Energy is reflected in the costs incurred by Envestra. PBA have previously reviewed IT costs for FRC applications in other jurisdictions in which Envestra operates, and concluded that the prices paid by Envestra for IT infrastructure were extremely competitive. If Envestra did not have access to Origin Energy, the prices paid for these items would be larger than those actually incurred.

The breakdown of these IT infrastructure costs is shown in the table below:

<b>IT Infrastructure</b>	<b>Estimated Cost (\$)</b>	<b>Actual Cost (\$)</b>	<b>Comment</b>
WebMethods	30,000	0	No increase required as covered under existing license arrangements
CorDaptix License	112,754	37,000	License supports 11% (76,000 metered sites) of total base. Negotiated percentage increase to existing license arrangements (\$339K/annum)
Control – M License	30,000	100,000	Required to purchase 2 year contract for 1000 tasks (batch job scheduling software)
Hardware	255,000	246,000	Additional CPU memory, and disk costs for the CorDaptix servers; additional reporting servers
<b>Total</b>	<b>427,754</b>	<b>383,000</b>	
<b>Total (M)</b>	<b>0.4</b>	<b>0.4</b>	

Supporting documentation has been provided as evidence that Envestra incurred these costs (Attachments 1 & 1A).

The estimates provided in the submission for IT Infrastructure are necessary to provide FRC services to establish an IT infrastructure that manages the flow of FRC data and messaging across multiple applications.

The costs are not included elsewhere in Envestra's FRC application or in the Access Arrangement Final Decision. Furthermore, detailed scoping identified efficiencies to the original mix of software licensing and hardware requirements which has resulted in an overall reduction of \$45k on the initial estimate.

It is also worth noting that estimated savings of \$1.5M were realised as the architectural solution utilised existing infrastructure by upgrading some existing servers rather than purchasing new Unix servers. If new Unix servers had been acquired then the hardware component of this item would have been in excess of \$1.7m based on experience in other jurisdictions. That is, the cost recovery proposed by Envestra is significantly less than would be required if Envestra did not have existing infrastructure.

The evidence provided by Envestra supports the conclusion that the costs are prudent. No evidence was provided in the Draft Decision to support the assertion that the costs "appear excessive". In fact, PBA concluded the opposite, that the costs proposed by Envestra were prudent.

## Recommendation

Envestra recommends that the QCA accepts the amount of \$383,000 to purchase servers, data storage and additional software licenses not included elsewhere, as it is based on actual and prudent costs incurred for the introduction of FRC in Queensland.

### 3.1.2 Contingency

#### QCA Draft Decision

*"The Authority notes that, by the time this Draft Decision is released, the retail gas market will have been open to competition for a number of months. Envestra's systems will have been in place for this period of time and major capital expenditure will have been completed. The Authority also notes the comments by PBA that Envestra has significant experience from other jurisdictions in rolling out new systems to meet FRC requirements, albeit that these may be somewhat different in each jurisdiction. On this basis, the Authority considers that a contingency allowance is not warranted."*

(refer DD page 12)

#### Response

Envestra agrees that now that the project is substantially complete there is little required in the way of contingency as by now it would have been taken up as actual costs where required.

As the project progressed the level of contingency required reduced as forecasts became actual costs. That is, the level of contingency dropped from what it was at the beginning of the project (i.e. \$1.7M) to close to zero, and now depends on the risks associated with the remainder of the project implementation.

### 3.1.3 CorDaptix System Upgrade in 2009-10

#### QCA Draft Decision

*"With respect to Envestra's proposed CorDaptix system upgrade in 2009-10, PBA observed that systems of this nature typically have useful lives of 5-10 years. The Authority is of the view that a commitment to upgrading this system in 2009-10 is not necessary at this point in time and, should this subsequently be deemed to be a prudent investment in 2009-10 (or later), the costs of this upgrade would more appropriately be considered in the context of approving Envestra's next access arrangement which is due to be finalised by 1 July 2011."*

(refer DD page 12)

#### Response

Envestra disagrees with the QCA's conclusion that the upgrade of the CorDaptix System can be held over until the next Access Arrangement period.

CorDaptix (now known as Customer Care and Billing) Version 1.5 was released in April 2004 by SPL Worldgroup (now known as Oracle Utilities). Envestra upgraded its Victorian billing system to this version with a minor patch release (1.5.15) at the beginning of 2005. Version 1.5.15 was installed in Queensland. It was not feasible given the timeframe prescribed by the Government to install a later version of CorDaptix. Any other version would have required extensive configuration which Envestra estimates would have extended the time frame by 6-8 months. It is therefore important to recognise that the version Envestra installed in 2007 to meet its FRC obligations in Queensland was already 3 years old when it was implemented.

Upgrading to a new billing system in 2009/10 would mean that this version will have been in use for 6 years, which is consistent with PBA's acknowledgement that the useful life of system solutions is from 5 to 8 years (page 4-22 of the PBA report).

Delaying an upgrade to the next access arrangement period would mean an upgrade may not occur until 2012/13, at which time CorDaptix will be over 9 years old and well beyond the useful life of the system, and indeed beyond the normal vendor software support arrangements. Therefore the QCA should approve the anticipated expenditure to support the upgrade of the billing system in 2009/10.

Furthermore, the vendor (Oracle Utilities) is due to cease Premium Support in June 2009, at which time they will offer a much lower level of coverage (refer Attachment 2 – p 11). It should be noted that the vendor has for many years provided consistently accurate forecasts in relation to timing of annual releases of their product, so there is a high level of confidence in the forecast dates for the end of product support. Delaying an upgrade to the next Access Arrangement period would risk an upgrade occurring after Premium Support ceases, leaving Envestra at significant risk should a critical issue arise. A critical issue could result in an extended outage of the billing system while the issue is resolved, as Oracle Utilities would no longer be supplying new updates, fixes, security alerts or critical patch updates for the version (Attachment 2 - page 3). Therefore funds must be available for the upgrade of the billing system in 2009/10 to ensure continuity of satisfactory vendor support, in keeping with a critical FRC system solution.

As PBA acknowledged, with the volume of market messages, combined with FRC stringent communication protocols, automated interfaces are required between major system components (page 3-10 of the PBA report), namely CorDaptix and Maximo. The new integrated solution means there is a need to maintain current versions for all component upgrades, as there are dependency/pre-requisites between components on supported versions - for example, certification with third party products and versions. If this is not maintained, then issues arising across the end to end solution may also not be adequately supported by vendor or IT consultants. In the case of CorDaptix 1.5, this may occur as soon as 2009, as this support item is not included once Premium Support ceases (Attachment 2 - Page 3).

Envestra previously estimated that the cost of the CorDaptix metering and billing system would be \$2.5m. Envestra has reviewed and updated these estimates and now submits a revised estimate of \$1.9M (2006 \$) to implement a major upgrade to the current version of CorDaptix in 2009/10. The \$0.6M saving is due to a 30% reduction of work effort to apply a major upgrade to the CorDaptix system rather than to implement a new system. The major upgrade will provide the functionality and architecture envisaged in the Access Arrangement.

Details of the revised costing have been provided in Attachments 3 and 3A.

#### Recommendation

Envestra recommends that \$1.9m is allowed for the CorDaptix System Upgrade in 2009-10 to eliminate the risk of critical failure of FRC operations.

### **3.1.4 Envestra's 2006 Revised Access Arrangement**

#### QCA Draft Decision

*"In approving Envestra's 2006 revised access arrangement, the Authority included costs of \$5.4 million associated with significant upgrades to Envestra's existing (pre-FRC) IT systems. As a result, the accompanying costs for these upgrades are already being recovered in current prices. The IT systems, now being proposed by Envestra to address FRC related purposes, share many of the same functional capabilities of the system upgrades that were already recognised in the current access arrangement, creating the potential for significant costs to be double counted.*

*Envestra has already accepted this possibility and deducted \$3.3 million from its originally proposed costs. PBA has suggested that the potential double counting is greater than this and recommended the Authority reduce Envestra's proposed costs by the full \$5.4 million accepted in access arrangement. The Authority has accepted PBA's advice on this issue."*  
(refer DD page 12/13)

## Response

The approach undertaken by PBA to review its Queensland Gas FRC Cost Pass-Through Application and subsequent acceptance of the PBA recommendation by the QCA is in error.

If the PBA recommendations were to be implemented, they would result in a lower level of service being provided to customers relative to that envisaged in the Access Arrangement and would fail to compensate Envestra for the efficient costs incurred in providing an FRC capability for gas consumers in Queensland.

The Access Arrangement forecasts approved by the QCA did not include the costs of FRC functionality. Rather it assumed that the pre-FRC business model would continue to apply to 2010/11.

The introduction of FRC in July 2007 required Envestra to:

- bring forward expenditure on IT systems originally proposed in the Access Arrangement to provide FRC capability within the Government's FRC timetable; and
- to expand the services needed to be provided by Envestra using the IT infrastructure to include FRC services.

Envestra has ensured that there is no double counting of cost between the Access Arrangement and the FRC submission. The total forecast expenditure for the billing and works management systems approved by the QCA in the 2006 Access Arrangement was \$5.4M. The forecast expenditure in the Access Arrangement was associated with significant upgrades to existing (pre-FRC) IT systems and excluded the costs of the introduction of FRC. As proposed by the Authority, Envestra has deducted \$5.4M from its proposed FRC expenditure in recognition of IT costs already included in its Access Arrangement.

The pass-through clause in the Access Arrangement allows Envestra to recover prudent costs associated with FRC. This is necessary to maintain Envestra in a revenue neutral position post FRC relative to that approved in the Access Arrangement. To achieve this outcome, Envestra has included in this submission the additional costs that it will incur to maintain the IT infrastructure as proposed in the Access Arrangement and to provide specific IT infrastructure so that FRC services can be provided. However, the Draft Decision disallowed Envestra to recover the additional costs of:

- Upgrading the billing system in 2009/10: and
- Completing implementation of the asset management system.

These investments are necessary to provide both the FRC functionality and asset management functionality approved by the QCA in the Access Arrangement. Further details on the reasons why this expenditure is required is set out below.

### Upgrading the Billing System in 2009/10

As discussed in section 3.1.3, it is essential to retain the 2009-10 upgrade of the billing system. If this expenditure is not incurred, the application will extend beyond the date at which the Vendor will provide technical support, increasing the risk of system failure. It is therefore essential that the Authority allow Envestra to recover these additional costs.

Envestra initially forecast in its Access Arrangement that the cost of implementing the billing system would be \$2.5m. Envestra's has revised this estimate and now forecasts that the total cost for this upgrade will be \$1.9M. In other words, Envestra is now forecasting a saving of \$0.6m relative to the \$2.5M approved in the Access Arrangement.

### Completing implementation of the Asset Management System (Maximo 6)

The introduction of FRC required Envestra to bring forward the implementation of the asset management system and it was initially intended to implement Envestra's current version of Maximo 4. However, on reviewing all options it became clear that it would be preferable to implement Maximo 6 rather than Maximo 4. Implementing Maximo 4 would have meant that an upgrade to Maximo 6 would have still been required in 2008-09 as the product would have been over 7 years old and would have reached the end of its useful life. Envestra determined that implementation of Maximo 6 could be done within the time frame required to implement FRC and would result in cost savings of \$0.4m.

However, in bringing forward the works management upgrade in the limited period of time, Envestra was only able to complete the functional capabilities to support the FRC requirements given the deadline set by the Queensland Government. Due to the restricted time to implement FRC, it was not possible to configure Maximo to provide the asset management services envisaged in the Access Arrangement. Envestra forecasts that an additional \$0.8M must be spent to complete the development of Maximo to a full works management system as envisaged in the Access Arrangement. A detailed breakdown of these costs is provided in Attachments 4 and 4A.

Finally, in Table 6 on page 13 of the Draft Decision, the Authority deducted the \$5.4m Access Arrangement allowance as well as an additional \$0.4m costs saving. The deduction of the \$0.4m is incorrect. The Authority recognises on page 12 that the \$0.4m cost savings is due to bringing forward the implementation of Maximo 6 (rather than Maximo 4) as discussed above. However, these costs savings have already been taken into account in Envestra's actual costs and forecasts as set out in Section 1 of this document. It is therefore incorrect to deduct an additional \$0.4m from Envestra's proposal.

In summary, the Authority's decision to deduct \$5.8M (\$5.4M + \$0.4M) (Table 6 page 13 of the DD) from Envestra's forecast FRC CAPEX fails to take into account the additional \$1.9M for the CorDaptix upgrade, the additional \$0.8M to complete the Maximo 6 functional capabilities and incorrectly assumes additional savings for implementing Maximo 6.

Envestra asserts that the deduction from the FRC forecast should only be \$2.7M net (made up of negative \$5.4M allowed in the Access Arrangement and a positive \$1.9M + \$0.8M additional CorDaptix and Maximo expenditure respectively).

### Recommendation

Envestra recommends that:

1. \$1.9m is approved for the 2009-10 upgrade of the CorDaptix billing system (per section 3.1.3)
2. \$0.8M is approved to complete the Maximo 6 functional capabilities.

### **3.1.5 Core Systems Depreciation**

#### OCA Draft Decision

*"The economic life for IT assets adopted by Envestra in the revised access arrangement was 10 years. To be consistent with the current access arrangement and noting the comments by PBA, the Authority considers that an economic life of 10 years is appropriate for these assets."*  
(refer DD page 14)

#### Response

Envestra disagrees with the OCA's Draft Decision regarding the application of a 10-year economic life to its FRC IT assets.

The Access Arrangement was in error in applying a 10-year economic life to all IT assets, and this should have been recognised by PBA. The IT systems used by Envestra pre-FRC, and on which the Access Arrangement was based, were much less sophisticated than those required to facilitate FRC. Pre-FRC IT functionality was mainly required for SCADA and stand alone asset management functions.

Post FRC, it is necessary for IT systems to:

- Be fully integrated with advanced B2B functionality
- Minimise downtime (planned or emergency) so as not to affect FRC operations
- Enable transaction interfaces with other market participants (Retailers & the Market Operator) ensuring that transactions (transfers and service orders) are processed correctly in order that exceptions requiring manual intervention are kept to a minimum for efficient business / field operations and to contain costs
- Handle varying transactions volumes over time, and
- Keep up with changing market rules

Furthermore, as previously discussed, vendor support for these complex IT applications is always less than 10 years. Indeed, our own experience in Victoria and South Australia indicates that major software upgrades or hardware replacements are required after 5 to 7 years, and in some instances, after 3 years.

We also note that regulatory precedent in Victoria<sup>1</sup> and South Australia<sup>2</sup> indicates that 5 years is the appropriate economic life to be assigned these FRC IT assets. It would be entirely inappropriate for this Queensland investment to be recouped over a period twice that of regulated FRC investments elsewhere.

#### Recommendation

Envestra recommends that the economic life to be applied to FRC IT assets be 5 years.

### 3.2 Core Systems Operating Costs

#### 3.2.1 Staffing

##### QCA Draft Decision

*"The Authority accepts that the introduction of FRC is likely to result in additional staffing requirements by Envestra due to an increase in the number of customer and data transaction activities. This is despite the fact many of the activities will become automated. However, the Authority is not convinced that the additional staffing proposed by Envestra, or that recommended by PBA, is reasonable or prudent, given the apparent low customer churn rates of around 2 to 3 customers per day. As noted by AGL and Origin, while there may be new tasks, it is not clear that these necessarily require additional staff and that some of these tasks could not be absorbed by existing staff. Due to these uncertainties, the Authority has included costs associated with only an additional 4 staff for the purposes of this Draft Decision. Envestra is welcome to provide a more detailed justification for additional staff in its response to the Draft Decision."*  
(refer DD page 15/16)

##### Response

The requirement to implement an integrated works management, metering, billing and site management solution in QLD in such a short period of time has seen the need to retain five additional staff to deal with the impacts of moving from a simple system with standalone applications that could be tailored to specific business needs, to an end to end solution where transactions are designed to flow through a series of integrated applications.

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<sup>1</sup> The Essential Services Commission of Victoria – "Annual Adjustment of Prices, Fees and Charges – 2004 Final Determinations – Envestra, Multinet Gas & TXU Networks" 30 November 2004.

<sup>2</sup> The Essential Services Commission of South Australia – "Envestra Ltd FRC Maximum Prices Price Determination" June 2004.

These seamless processes were not able to be completely implemented in the timeframe allowed, resulting in the requirement to have a number of manual work rounds which have added to labour costs. Effort is now focused on resolving these issues, however in the interim, additional resources have been deployed to ensure that the business operates at normal service levels. For this reason Envestra now submits a claim for an additional \$0.2M in one-off bedding down costs to recoup this actual cost outlay.

In particular, the introduction of FRC, with requisite changes to support applications, has led to significant costs associated with processing data in the area of reconciliation and processing of invoices due to incomplete interfaces between post FRC systems.

The workflow process associated with the Consumer Connections team has been affected significantly by FRC. Prior to FRC, the QLD team utilised customised database applications to manage customer contacts and the dispatch of work to the field. Maximo will eventually consolidate all Consumer Connections functions but as yet has not been able to be configured in a way that negates the need to double enter connection data. Consequently, a number of employees have been employed to facilitate Consumer Connections functions.

Moving from customised applications to the new FRC systems has, and will continue, to require significant time in validating and processing data that has been captured and retained in one or more systems. As an example, in the area of Customer Connections there are large numbers of outstanding transactions (service orders) currently in progress, with manual intervention required to allow them to complete.

As a result, to deal with these issues it has been necessary for Envestra to retain an additional 5 FTEs at an average annual cost of \$40k each giving a total additional cost of \$0.2M.

#### Recommendation

That the QCA approves an additional \$0.2M in one-off bedding down costs.

### 3.2.2 Office Costs and Training Overheads

#### QCA Draft Decision

*"While the Authority accepts the thrust of the recommendation by PBA regarding office costs and training overheads, it has further reduced these to reflect its decision to include only 4 additional staff. Office costs have been reduced to \$53,000 per year and training to \$20,000 per year."*  
(refer DD page 16)

#### Response

Envestra accepts the QCA's Draft Decision.

### 3.3 Telemetry Capital Expenditure

#### QCA Draft Decision

*"The Authority accepts the recommendation by PBA to allow for meter installation costs of \$2,500. Envestra has acknowledged the proposed costs in its cost pass-through application were too high on average.*

*However, the Authority does not accept the higher cost of \$15,000 for the 16 interval meters installed over 2005-06 and 2006-07 was justified. While these meters may have been for higher usage customers and may have required high cost correctors, the disparity between the cost of completed meter installations and the expected cost of future installations is excessive. Furthermore, the (higher cost) ad hoc roll out during 2005-06 and 2006-07 was within Envestra's control. The Authority considers that an average cost of \$2,500 across all meter installations is reasonable"*  
(refer DD page 17/18).

## Response

While Envestra accepts the QCA Draft Decision of an allowance of \$2,500 for each new standard installation, it strongly disagrees with the QCA's Draft Decision regarding the higher cost of \$15,000 for each of the 16 interval meters installed over 2005-06 and 2006-07

The QCA acknowledges that the higher cost installations were for higher usage customers, but believes the disparity with the cost of future installations is too great. This is despite the QCA's own expert accepting the cost for the original 16 sites as reasonable.

The QCA needs to recognise that the 16 sites represent the largest customers on the network and cannot be considered typical demand sites that require standard telemetry componentry (unlike the remainder of the demand sites). Each site has required specialist resourcing and installation requirements. Envestra has attached a recent quotation for \$22,000 (Attachment 5) for the installation of one large site as evidence that its claim of \$15,000 per site is justified and even conservative. Envestra submits that its expenditure in this area has been prudent and efficient, in accordance with the requirements of the Code.

## Recommendation

Envestra recommends that the QCA approve PBA's recommendation of \$15,000 per site for the initial 16 sites

### 3.4 Telemetry Operating Expenditure

#### 3.4.1 Operations and Maintenance

##### QCA Draft Decision

*"PBA did not support the costs proposed by Envestra for operating and maintaining the telemetry equipment and instead provided its own estimate based on benchmark data. In the absence of any compelling reason why telemetry costs in Queensland should be significantly higher than in NSW, the Authority accepts PBA's estimate of a reasonable cost for this activity of \$600 per site per year. This equates to 0.5 FTE staff.*

*The Authority accepts that Envestra will incur operating costs in relation to delivery point registration, churn administration and data management as a direct result of the introduction of FRC. However, given that levels of churn are not expected to be significant (in the 4 months to the end of October 2007 only 554 customers had changed retailer) and there is only data from 74 interval meters to be managed, the Authority agrees with PBA that costs associated with an additional 0.5 engineers and 0.5 an administration officers should be sufficient for the task."*  
(refer DD page 19/20)

##### Response

Envestra disagrees with the QCA's Draft Decision regarding the FTE requirements for operating and maintaining telemetry equipment.

Based on actual experience gained so far in the new Queensland FRC operating environment, Envestra's FTE requirements for operations and maintenance of telemetry equipment are as follows:

##### Gas Operations Engineer (1 FTE)

The Gas Operations Engineer is required to undertake the following activities:

- Have overall responsibility for "Historian System" Administration
- Have overall responsibility for "Citect System" Administration
- Network Control
- Liaising with external parties (e.g.: VENCORP)
- Liaising with field crews
- Data entry
- Testing

Current experience shows that one full FTE is required to undertake the requirements of this role in order to maintain efficient and effective overall network control and satisfy market rules.

#### Data Analysts/System Support (2 FTE)

Envestra is responsible for the collection and maintenance of interval data (including profiling of data until all equipment is fitted) and that this requires that Envestra undertake;

- extensive metering data quality assurance
- liaison with external parties (e.g.: VENCORP/Retailers)
- a degree of manual data entry
- Historian system administration
- Citect system administration, and
- general administration tasks.

This requires a high degree of specialisation which does not lend itself to a casual or part time position either in skill set or workload. Current experience shows that the level of skill required to manage large amounts of data, perform estimations and interface this data with VENCORP is beyond original estimates and requires 2 FTE's (Data Analysts/System Support) in total.

Envestra believes it is necessary to employ these resources to ensure that accurate data is delivered to the market in a timely manner in order to satisfy market rules.

#### E&I Maintenance Technician (1.5FTE)

Currently in Queensland only 24 of the existing 82 sites have full telemetry equipment fitted. Under market rules Envestra is required to fit telemetry within 2 years of a site reaching the appropriate demand volume. This function is performed by E&I Maintenance Technicians.

Along with these installation responsibilities, E&I Maintenance Technicians are also responsible for the general ongoing maintenance of the telemetry equipment. This includes;

- troubleshooting communications, power, RTU issues
- calibration and maintenance of instruments, RTUs etc , and
- troubleshooting communications, power, RTU issues.

It should be noted that there are actually 2 FTEs in this group however 25% of each of their time is dedicated to capital work implying that 1.5 FTEs are allocated to this function.

#### Summary of Staffing Positions

Envestra's has proposed revised staffing requirements for the operations and maintenance of telemetry that are based on actual experience in Queensland.

These requirements are summarised below:

Description	FTE
Gas Operations Engineer	1
Data Analysts/System Support	2
E&I Maintenance Technician	1.5
<b>Total</b>	<b>4.5</b>

## Recommendation

Envestra requires 4.5 operations and maintenance FTE's to effectively manage and operate telemetry equipment which we now estimate will cost \$0.5M annually. Without the provision of such services, which will not occur if the QCA does not support funding, there is a very high risk of failure (or unacceptable delay) of correct data being supplied to market. Such breaches of retail market rules (when relating to large volumes of gas) have the potential to cause significant market problems for regulators, customers and the distributor, as has been experienced in South Australia in the initial years of FRC implementation.

### 3.4.2 Software Upgrades

#### QCA Draft Decision

*"As PBA supported the need and costs to install communications equipment to each interval meter, the Authority accepts the IT operating costs proposed by Envestra are reasonable, with the exception of the proposed software upgrades every second year."*

(refer DD page 20)

#### Response

Envestra accepts the QCA's Draft Decision.

## 3.5 Envestra's Proposed Tariffs

### 3.5.1 Proposed Tariff Structure

In 2007 the QCA accepted Envestra's proposal to introduce an additional FRC tariff to recover these costs such that:

- the costs of developing the telemetry/interval metering system would be recovered equally from demand customers;
- the costs of developing the core system would be recovered through a variable charge applied to volume customers; and;
- all other costs would be recovered from a fixed charge shared equally by all customers.

For the purpose of recovering the provisional FRC cost pass-through amount in 2007-08, Envestra imposed an additional fixed charge for demand customers and a fixed and variable charge for volume customers.

The variable charge for volume customers applied to the first step of the consumption-based charges and was expected to raise 20 per cent of the costs to be recovered from volume customers, with the remaining 80 per cent to be recovered from the fixed charge.

Envestra proposes to adopt a similar approach to the recovery of FRC costs resulting from the Final Decision.

### 3.5.2 Proposed Target Revenue

Envestra's claim is for the pass-through of FRC costs associated with \$7.5 million in capital expenditure and \$7.0 million in operating expenditure during the current access arrangement period. The cost of supplying FRC services in Queensland is significantly less than that initially forecast and proposed in Envestra's February 2007 application. Indeed the costs of implementing FRC in Queensland are substantially lower than those incurred by Envestra in other jurisdictions which in itself, is a credit to those Envestra employees and contractors responsible for the FRC project. Envestra attributes the lower costs relative to other jurisdictions to competitive pricing for IT infrastructure and synergies and economies able to be delivered to Queensland customers as a result of Envestra's previous FRC implementation experience.

The forecasts Envestra has included in this submission are consistent with the Code requirement of being “best estimates arrived at on a reasonable basis”. A large portion of the capital costs have been spent implying a high degree of certainty on the costs forecast. Envestra needs to recover these costs to remain revenue neutral. The operating cost forecasts are based on Envestra’s actual experience in operating the Queensland FRC system over the last seven months. They are therefore very reliable forecasts.

The building block revenues calculated by Envestra are shown in the table below.

**Target Revenue for future Envestra tariffs (\$m Nominal)**

	2006-07	2007-08	2008-09	2009-10	2010-11	Total
<b>FRC Revenue</b>	0.0	2.8	3.5	4.3	5.3	15.9

**NB** 2007/08 revenue is the “Provisional” recovery approved by the QCA

Envestra requests that QCA approve recovery of these revenues.

It is envisaged that revenue targets in the Access Arrangement will be adjusted to include the FRC revenue in this submission and to develop network tariffs including FRC costs. Envestra will consult with QCA to develop tariffs and a price path to recover the target FRC revenue.