PARSONS BRINCKERHOFF

Parsons Brinckerhoff Australia Pty Limited

ABN 80 078 004 798

Level 16 1 King William Street
Adelaide SA 5000
GPO Box 398
Adelaide SA 5001
Australia
Tel: +61 8 8405 4300
Fax: +61 8 8405 4301
Email: adelaide@pb.com.au

www.pbworld.com

Certified to ISO 9001, ISO 14001, AS/NZS 4801
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By email
vanessa.sutcliffe@nt.gov.au

Vanessa Sutcliffe

Director Utilities Commission
Utilities Commission of the Northern Territory
Tel: (08) 89997980
Fax: (08) 89996262

Dear Vanessa,

Supplementary advice - Review of PWC's Cost Pass Through Application

Further to Parsons Brinckerhoff's review of Power and Water Corporation's (PWC) Cost Pass Through Application, and the Commission's request for supplementary advice regarding submissions received in response to the Commission's draft determination, this letter sets out our opinions in relation to the relevant maters raised in the following submissions:

- Submission from the Northern Territory Major Energy Users, 3 April 2013
- Submission from Power and Water Corporation, 15 April 2013
- Submission from QEnergy 16 April 2013
- Supplementary submission from Power and Water Corporation, 17 April 2013

These submissions have been provided in response to:

- Cost Pass Through Application Draft Determination, The Northern Territory Utility Commission, March 2013
- Parsons Brinckerhoff Review of Capital and Operating Expenses in relation to the 2009 Network Price Determination Cost Pass Through Application 26 March 2013 (Parsons Brinckerhoff's Review)

In accordance with the terms of our engagement, Parsons Brinckerhoff undertook a review of the information provided by PWC in order to assess if, in our opinion, the costs being claimed in its Pass-Through Application are reasonably attributable to the efficient implementation of the recommendations of the Davies' Report[1] as required the Northern Territory Government. Accordingly, this supplementary advice focuses on

[1] Mervyn Davies, 4 February 2009, Independent Enquiry Into Casuarina Substation Events And Substation Maintenance across Darwin.

whether the additional information provided in the abovementioned submissions alters the opinion and findings of Parsons Brinckerhoff's Review.

The following sections set out our opinions in regards to the issues raised in the submission documents as they relate to the terms of Parsons Brinckerhoff's engagement.

RAMP resources

In their submission QEnergy have raised concerns about the possible double allocation of expenses related to RAMP resources. Specifically QEnergy notes:

'Power and Water would have included direct labour costs within their regulatory determination for opex and capex, comprising staff and management in the networks business. These staff cannot be re-charged as part of opex and capex as part of the pass-through without duplicating the costs.' [2]

However, PWC's submissions suggest that all RAMP resources claimed should be allowed:

'Power and Water considers that these positions, while not directly related to zone substation maintenance needs, were necessary to achieve a more strategic focus on the asset management function and essential related matters such as operating, safety and training.'[3]

We note that PWC provided information in its Pass-Through Application claiming costs associated with additional resources engaged to implement the recommendations of the Davies' Report as well as costs associated with additional resources required to address PWC's Long Term Action Plan.

In our review, we recommended that only those additional resources which are reasonably necessary to implement the recommendations of the Davies' Report should be included. Accordingly, we identified the costs associated with the additional resources engaged to implement the recommendations of the Davies' Report, and recommended these costs be allowed. Hence Parsons Brinckerhoff's recommendations exclude the costs associated with additional resources required to address PWC's Long Term Action Plan.

Consequently, we are of the view that there has been no duplication of labour costs with those labour costs included in the 2009 determination as suggested by QEnergy. Furthermore, while we acknowledge that the additional labour costs associated PWC's Long Term Action Plan may be appropriate in relation to the business achieving good asset management practice across its broader electricity asset base, we are nonetheless of the view that these additional labour costs are not directly related to the implementation the Davies' Report recommendations. Hence, we are of the view that no evidence has been presented that alters our recommendation in relation to these costs.

Claimed Overheads

In their submission QEnergy has also expressed concern over the double allocation of corporate overheads as part of the cost pass through application. QEnergy states:

'Power and Water applies an overhead allocation, like all network businesses, to all of its operating and capital amounts which recovers its forecasts of overhead costs including corporate, head office, legal affairs,

2. Submission from QEnergy 16 April 2013, Page 2

3. Submission from PWC 15 April 2013, Page 1

the CEO and General Counsel, Economics and Finance areas, and asset related charges such as fleet, property, and interest charges … These overheads would have been funded in the original Determination and therefore cannot be funded twice.' [4]

We note that the Opex values claimed by PWC include the expected incremental overhead costs, such as IT, training and furniture that you would expect to see increase with the additional of FTEs. In making the recommendations set out in Parsons Brinckerhoff's Review, we proportionally reduced the amounts claimed to reflect the adjustments made to the number of additional employees that we recommended were reasonably required to implement the Davies' Report recommendations (as discussed above).

On further examination of the opex claimed in relation to the matter raised by QEnergy, we note that under a cost category identified as 'Corporate Costs' (also described as 'Business Service')[5], PWC have included executive salaries, financial services, as well as corporate and legal counsel. In our opinion, a modest increase in the number of FTEs as contemplated by Davies (i.e. 15 felid staff) is not likely to result in an increase of such corporate costs. It is also noted that in its Cost Pass-Through Application, these costs were generally determined on a proportional allocation basis, and in the Supplementary Information provided PWC has not provided any further evidence that these additional costs were incurred as a result of the Davies' Report recommendations.

Accordingly, we general agree with QEnergy's point that there has been duplication of corporate overhead costs between the Cost Pass-Through Application and the 2009 determination. As such we recommend that further adjustments to Opex be made as outlined in Table 1.

Service Level Agreement Costs

In relation to the matter raised by the Commission regarding the inclusion of Service Level Agreement costs associated with System Control and the Retail Call Centre. We note that information supporting these costs, and in particular demonstrating that they were reasonably incurred as a result of the Davies' Report recommendations was not included in the Cost Pass-Through Application or in the Supplementary Information. While some additional costs may have been incurred as a result of additional outages to implement the Davie's recommendations, it is unclear to Parsons Brinckerhoff that these Service Level Agreement costs are fully and directly related to the Davies' recommendations. Consequently, on review, we are unable to conclude that they should be included, and as grounds for their inclusion has not been demonstrated we recommend the further adjustments to Opex outlined in Table 1.

Generation Costs

In their supplementary submission PWC refuted the exclusion of $9.93 million for the provision of back-up generators[6]. While we acknowledge that some of the $9.93 million could be directly attributed to the implementation of the recommendations of the Davies' Report, we note that PWC has not clearly identified what, if any, of this cost relates the Davies' recommendations and simply states that:

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4 Submission from QEnergy 16 April 2013, Page 2

5 MODEL 2 - 2013-14 Cost Pass Through Application, Opex Remedial Works 2008-2012

6 Submission from PWC 15 April 2013, Page 1

'The generators were deployed during the emergency restoration and reconstruction works (including those works recommended by the Davies Review).' [7]

As such, we are unable to conclude what, if any, portion of these costs were reasonably incurred as a result of the Davies' Report recommendations, and hence we are not able to review our recommendation in relation to the generation costs.

Table 1 sets out a revised summary of our recommended adjustments arising from consideration of the supplementary information.

Table 1 Recommended Opex Adjustments ($m, nominal in year claimed)

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Previous Opex recommendation	5.37	5.00	8.73	6.62	11.28	6.20
Adjustment						
Removal of Corporate overheads	[redacted]					
Removal of SLAs	[redacted]					
Total adjusted opex	**5.11**	**4.52**	**6.36**	**3.63**	**8.06**	**6.20**

Source: Parsons Brinckerhoff analysis

I trust that the report addresses the requirements of the Commission in relation to the supplementary advice requested. Please don't hesitate to contact me should you require any further information nor clarification of the matters set out in this report.

Yours sincerely

John Thompson
Principal Consultant, Strategic Consulting
Parsons Brinckerhoff

[7] Submission from PWC 15 April 2013, Page 1