From: [redacted]
To: [redacted]
Cc: [redacted]
Subject: RE: AER 2023 Annual Benchmarking Report for distribution - timeframes for consultation [SEC=OFFICIAL]
Date: Friday, 27 October 2023 3:03:42 PM

Hi Claire,

Thank you for sharing the preliminary Quantonomics results for MTFP/MPFP under the preferred approach to addressing capitalisation differences.

We support the method used by Quantonomics to remove capitalised corporate overheads (CCOs) from the RAB across asset classes and the adjustment to capex and depreciation schedules, as set out in the AER's email below. The implementation approach is simple but is transparent and fit-for-purpose. We also agree that leaving the opening 2006 RAB unaffected by historical CCOs is practicable and appropriate given that the benchmarking data series only start from 2006. As a result of the adjustments to RAB under the preferred option, Quantonomics have recalculated the return on and return of components of the annual user cost (AUC) that are used to calculate the capital input shares for MTFP/MPFP.

We note, however, that Quantonomics have not adjusted the benchmark tax liability under the preferred option. We suggest that this could be included as a refinement of Quantonomics' implementation approach for the final report. This is because all other components of building block revenue and tax calculations by asset class are already available or easily calculated from the adjusted data under the preferred approach. The opex component by asset class could be quickly adjusted for CCOs in proportion to the ratio of opex to total opex in that year. While the impacts on the benchmark tax liability are not as material relative to the changes to return on and return of capital (because opex is in both revenue and expense), our view is that the tax liability should be adjusted for consistency.

We agree with the format in which the preferred approach for MTFP/MPFP will be presented, as per updated Chapter 3 of the Quantonomics report, with Chapter 4 to now include only the results for the econometric models under the standard and preferred approach. We did, however, note an issue in Quantonomics' Appendix A5, where Equation (16) for AUC and Equation (18) for RAB are missing the Inflation Addition term.

Whenever the inputs and/or outputs change, the output weights also change. As raised in our feedback to the preliminary Quantonomics report and the draft 2023 annual benchmarking report, we consider that the output weights should be updated under the preferred approach for the following reasons:

- the preferred approach materially changes the values for the opex inputs due to the adjustment for CCOs
- the basis of the opex series for benchmarking has also now changed to the 2022 CAMs from the 2014 frozen CAMs
- updating output weights will pick up revisions made to some incorrect historical benchmarking data that have now been corrected
- additional years of data have been included since the output weights were last updated.

Our analysis indicates material changes to output weights based on the data now being used for benchmarking.

Output weights	Energy Delivered	Customer Numbers	Circuit Length	Ratcheted Maximum Demand
2006-2018	8.58%	18.52%	39.14%	33.76%
2006-2022, Preferred option	7.69%	15.07%	27.51%	49.73%

These updated output weights materially change the outcomes for some DNSPs. For opex MPFP under the preferred option, rankings for the majority of DNSPs can change from 1 to 6 places up or down using the revised weights compared to using the current weights. Not updating the output weights may therefore obscure the true performance of DNSPs and provide a misleading picture of relative MTPF/MPFP performance.

Thanks again for the opportunity to comment. We look forward to having the preferred approach fully implemented and presented across all benchmarking models, for the final 2023 benchmarking report.

Kind regards,
Marlene

Marlene Garcia
Regulatory Analyst | Market Development & Strategy

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[redacted]
Level 13, 24-28 Campbell St, Sydney NSW 2000
[redacted]