16 October 2023

Mr Arek Gulbenkoglu
General Manager
Expenditure
Australian Energy Regulator

by email: [redacted]

Dear Arek

re: AER Draft Annual Benchmarking Report 2023

ElectraNet appreciates the opportunity to provide feedback on the AER's draft Annual Benchmarking Report 2023 for TNSPs and accompanying analysis by Quantonomics.

We welcome the AER's acknowledgement in the draft report of our concern with the volatility in the output used in the economic benchmarking, particularly the reliability (energy not supplied (ENS)) output. However, as noted in previous submissions on the AER's benchmarking measures, there remain several material limitations with the current economic benchmarking approach.

The overall purpose of economic benchmarking, which is set out in the National Electricity Rules (6A.31), is to:

> *… describe, in reasonably plain language, the relative efficiency of each Transmission Network Service Provider in providing direct control services over a 12–month period.*

Our primary concern with the AER's benchmarks remains that the output measures bear little or no resemblance to the output of a modern electricity transmission network. Nor do they allow adjustment for operating environment factors beyond our reasonable control. While this is the case, the results of the analysis will always be flawed.

We note that Quantonomics' model is based on outputs readily available to the electricity sector and convenient from a modelling perspective. However, as mentioned previously, in our view, the current measures do a poor job of measuring the output of a modern transmission network, which has changed substantially since the measures were derived in 2014. Worse, the measures will do an increasingly poor job of measuring our output in future years as the period of analysis begins to capture the time when ElectraNet has made substantial investments to support the ongoing transformation of the power system.

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Similarly, the measures do not reflect changes in the way services are provided. In recent years we have provided network support to Port Lincoln through a generation contract, with material opex costs. Going forward that service will be replaced by a capex solution which has been shown to be in customer's interests through a RIT-T process and confirmed to be prudent and efficient through a contingent project review process. Notwithstanding these things, this will cause changes in our partial total factor productivity results, both capex and opex.

Notwithstanding the lack of acknowledgement of the shortcomings, Quantonomics repeats the point made in past reports by Economic Insights, for example, that this analysis "allow[s] comparisons of productivity levels as well as productivity growth to be made"[1] but does so without the cautionary notes of previous reports. The AER makes the same point in its report without acknowledging the limitations identified in past years but not addressed.[2]

The limitations of the transmission benchmarking analysis must continue to be clearly acknowledged.

We again encourage the AER to examine the methodology and measures used in this process to ensure that the results truly reflect the efficiency with which ElectraNet and other TNSPs provide the increasingly complex services we provide to our customers. To be valid, the results must reflect this as the electricity sector in Australia, and in particular in South Australia, continues to lead the world in the uptake of renewable generation.

We look forward to engaging further on these issues in future. Should you wish to discuss any aspects of this response, don't hesitate to get in touch with Jadson Lima in the first instance on [redacted]

Yours sincerely

[redacted]

Jeremy Tustin
Manager Regulation

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[1] Economic Insights, draft report p.22

[2] Draft benchmarking report, p.1