



Part of Energy Queensland

27 October 2023

Claire Preston  
Director, Network Expenditure  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

By email: [REDACTED]

Dear Ms Preston

**AER Consultation – Draft 2023 Annual Benchmarking Report for Electricity Distribution Network Service Providers and Quantonomics Benchmarking Report**

Ergon Energy Corporation Limited (Ergon Energy) and Energex Limited (Energex), operating as Distribution Network Service Providers (DNSPs) in Queensland, appreciate the opportunity to provide a submission to the Australian Energy Regulator (AER) on its Draft 2023 Annual Benchmarking Report for DNSPs, the Draft Quantonomics Benchmarking Report (the Draft Reports) and supporting documents, including the underlying data files.

Ergon Energy and Energex continue to hold a number of concerns with respect to the manner in which data has been represented in the Draft Reports, including surrounding:

- the static nature of output weights despite historical data revisions;
- the absence of explicit statements noting the potential under/overstatement of DNSP efficiency implied by multilateral partial factor productivity (MPFP) and multilateral total factor productivity (MTFP) analysis; and
- recurring monotonicity violations.

Detailed feedback and recommendations are included as **Attachment 1**.

We have reviewed the underlying data for the benchmarking report and have no comments or concerns regarding the information presented.

Should the AER require additional information or wish to discuss any aspect of this submission, please contact me or Sarah Luinys [REDACTED]

Yours sincerely

[REDACTED]

Alena Christmas

**Acting Manager Regulation**

Telephone: [REDACTED]

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## Attachment 1: Detailed Feedback on the AER's Draft 2023 Annual Benchmarking Report for Electricity Distribution Network Service Providers and 2023 Quantonomics Benchmarking Report

Chapter Ref	Subject	Comments/Feedback
4	MTFP and MPFP index analysis – Limitations	<p>Ergon Energy and Energex appreciate that there are inherent limitations with all benchmarking techniques. However, we are concerned that the AER recognises that its multilateral partial factor productivity (MPFP) and multilateral total factor productivity (MTFP) analysis does not consider, or adjust for, all material differences in the operating environments of DNSPs. We consider that the AER has not clearly explained the implications of this deficiency or how it should be considered when interpreting results.</p> <p><b>We suggest the AER should more explicitly state that the true level of efficiency may be under/overstated by the MPFP/MTFP analysis and the relative efficiency and rankings of DNSPs implied by the MPFP and MTFP should not be evaluated without due consideration.</b></p>
4	MTFP and MPFP index analysis – Results	<p>The Draft report makes definitive statements regarding Distribution Network Service Providers (DNSPs) improved or declining efficiencies in 2022, without qualifications. Such statements may be misleading and result in unjustified reputational impacts for DNSPs.</p> <p><b>We suggest reframing these statements to account for recognised limitations and reduce the risk of misinterpretation.</b></p>
4	MTFP and MPFP index analysis – Output weights	<p>We note that several DNSPs have revised their historical data, however the output weights in the MPFP and MTFP analysis have not been updated to reflect this.</p> <p>Changes in the output weights can have a significant impact on a DNSP's MTFP and MPFP index scores and rankings.</p> <p>Ergon Energy and Energex note that the benchmarking development program (Section 8) highlights the plan to commence an independent review of output weights in 2023-24, and no updates will be made prior to this review.</p> <p><b>We suggest that in future, the output weights are updated on an annual basis, analogous to the way the elasticities and outputs weights are updated annually for the econometric benchmarking models. This is particularly important when revisions to the historical data have been made to correct data reporting errors.</b></p>

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5	Econometric models	<p>We note that poor monotonicity performance is evident in the 2023 draft report and significant monotonicity violations remain evident. We note that the AER is investigating the reliability performance of the Translog econometric opex cost function models, particularly in relation to satisfying the key monotonicity property.</p> <p><b>Ergon Energy and Energex suggest that the AER should set out a detailed work program as a priority to investigate ways to improve the statistical reliability of the econometric models.</b></p> <p><b>We also suggest that until such time as these problems are addressed, the AER should exercise extreme caution when using any models to set regulatory allowances.</b></p>
8	Benchmarking development - General	<p>Section 8 of the Draft Report identifies several areas in which the AER is currently undertaking or planning to undertake benchmarking development work. We note that much of this work has also been highlighted in previous annual benchmarking reports. We note improvements to this section of the report include the addition of expected timings on some individual items.</p> <p><b>Nonetheless, we suggest that the provision of a detailed work plan with indicative timeframes for both commencement and conclusion of the various items would be beneficial for DNSPs and provide confidence that the issues previously identified as priorities will be addressed in a timely manner.</b></p> <p><b>In addition, matters which may have a more direct bearing on DNSPs revenue resets should be prioritised and addressed through comprehensive, stand-alone consultation processes to provide opportunity for all affected stakeholders to contribute meaningfully to improvements in the AER’s benchmarking methodology.</b></p>
8	Benchmarking development - Benchmarking comparison point	<p>We note that one issue identified for future further investigation is the benchmark comparison score of 0.75.</p> <p>Ergon Energy and Energex agree with the AER’s comment that the comparison point provides a margin for general limitations of the models with respect to the specification of outputs and inputs, data imperfections, other uncertainties when forecasting efficient opex and quantification of Operating Environment Factors (OEFs).</p> <p><b>We suggest that it is appropriate to retain a conservative benchmarking comparison point and that the benchmarking models and OEF assessments should be significantly more mature before any changes to the comparison point are considered.</b></p>