

AER 2023 BENCHMARKING REPORT FOR ELECTRICITY DISTRIBUTION NETWORKS

21 NOVEMBER 2023

Thank you for the opportunity to make a brief submission on the Draft Distribution Network benchmarking report. The EUAA very much appreciates the significant work undertaken by the AER in developing this benchmark data. This includes extensive engagement with the networks to ensure accurate reporting and a level of consistency that means the final report provides very useful data to all stakeholders on industry performance.

Overall, we support the changes to methodology in this year's report. We acknowledge that no matter how comprehensive the AER's methodology is, there will always be differences of view between a network and the AER. We are sure that individual networks will state they have 'special' circumstances that they think is not reflected in the comparative results. To the extent there are any special circumstances we believe they are likely to be comparatively minor and unlikely to impact the overall industry comparison. Even if networks wish to downplay the comparative network results, it still leaves a relatively poor overall productivity performance of many networks over the long term, though we are encouraged by the improvement of some over recent years.

There is one issue we would like to highlight – the 0.75 benchmark comparison under the econometric opex cost function. Our members find it difficult to understand how a company that is 25% less efficient than the frontier company can still be described as 'not materially inefficient'. Our members would suggest that such a company at the 0.75 level may not have a long-term future in a competitive market.

Given the regulatory framework is meant to reflect what would happen in a workably competitive market, we would support the AER's early review of the appropriateness of this 0.75 benchmark. This was part of the discussion around the AER's review of opex productivity in 2018-19 which led to the requirement for 0.5% annual opex productivity. The selection of the 0.75 benchmark came out of the AER's final decision on Ausgrid in 2015 and was based on the then relatively limited benchmarking information that was available. The AER Consumer Challenge Panel submission from November 2018 provides more background on this issue and why it is important for consumers¹. The AER's final report on opex benchmarking did not consider this benchmark issue².

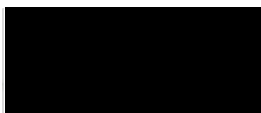
We understand that the AER's future benchmarking work programme has a review of the 0.75 benchmark around 2026. We would recommend that this review be brought forward to 2024. There is significantly more information available now than what was the case in 2015.

We encourage all networks to push their own productivity frontier and seek to play a key role in delivering net zero at least cost for consumers.

¹ See pp 11-14

² <https://www.aer.gov.au/system/files/Opex%20productivity%20growth%20review%202018%20-%20Final%20decision%20-%208%20March%202019.pdf>

Do not hesitate to be in contact should you have any questions.



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