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19 October 2023

Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Via email

Submission to the 2023 Draft Annual Benchmarking Report for Electricity Distribution Network Service Providers

Essential Energy welcomes the opportunity to comment on the 2023 Draft Annual Benchmarking Report for Distribution Network Service Providers (the Draft Report). This submission does not contain any confidential information and Essential Energy is happy for it to be made publicly available.

The Australian Energy Regulator (AER) has adopted an incremental approach to improving its benchmarking, which Essential Energy supports. In this respect, the current development work on addressing the impact of differences in capitalisation on the benchmarking results, examining the impact of export services on benchmarking, as well as improvements to the econometric models are appreciated.

Essential Energy welcomes proposed future development work, especially regarding improving and updating the quantification of operating environment factors (OEFs), particularly around vegetation management. Essential Energy's operating expenditure is significantly higher than other distribution network service providers (DNSPs) due to the level and extent of vegetation across the network and requirements to manage vegetation risks. However, the new vegetation management OEF (based on the Victorian jurisdictional requirements) does not appropriately reflect the risk of bushfires and level of necessary vegetation management costs in our network.

Below we have set out some specific issues on which we would like to offer feedback.

Development work – indicative timeframes and prioritisation

Section 8 identifies a number of areas where the AER is currently undertaking benchmarking development work or planning to do so. It would be helpful if the AER could set out indicative timeframes for starting and concluding the various streams of development work to allow stakeholders to plan properly, and to allow submitters to see that the issues they have previously identified as priorities will be addressed in a timely way.

In particular, prioritisation of issues that would have a more direct bearing on DNSPs (e.g., resolution of a number of OEF issues that the AER has flagged – such as vegetation management OEFs) would be welcomed. It may be more appropriate for these issues to be addressed through comprehensive, standalone consultation processes (similar to the consultation on capitalisation differences) rather than being addressed through individual reset determinations – so that all affected stakeholders can contribute meaningfully to improvements in the AER's benchmarking methodology.

New accounting standard for leases

Section 1.1 notes Essential Energy was the first DNSP to adopt the new accounting standard for leases. In line with instructions in the regulatory determination for 2019-24, Essential Energy reported lease costs as capex (instead of opex as per other NSW DNSPs) since the commencement of the 2019–24 period. Essential Energy confirms we will provide adjusted opex and RAB figures to the AER

in preparation for the 2024 Annual Benchmarking Report, to allow lease costs to be considered under the legacy standard consistent with other DNSPs.

Should you have any questions or concerns about this submission, please contact Mary-Clare Crowley, Network Regulation Manager, [REDACTED].

Yours sincerely

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Hilary Priest
Acting Head of Regulatory Affairs