

6 November 2023

Ms C Preston
Australian Energy Regulator
Level 38, 360 Elizabeth Street
MELBOURNE 3000 VIC

Email: [REDACTED]

Dear Ms Preston

Preliminary 2023 Annual Benchmarking Report

SA Power Networks welcomes the opportunity to comment on the Australian Energy Regulator's (AER's) draft Annual Economic Benchmarking Report, as emailed to Distribution Network Service Providers (DNSPs) on 5 October 2023, with updated data provided on 18 October 2023.

In reviewing the AER's preliminary benchmarking data, SA Power Networks identified inconsistencies in the data used to develop the benchmarking results for the 2023 report. We acknowledge these inconsistencies have an immaterial impact on SA Power Networks' relative benchmarking performance, therefore we are supportive of the AER not updating the 2023 report to correct these errors. We understand the AER will correct the data in preparation of its 2024 benchmarking report.

We note the AER has incorporated the outcomes of its final guidance note on the capitalisation differences within the econometric opex cost function modelling in the draft benchmarking report. A subsequent update to the Quantonomics report was provided by AER staff on 18 October 2023, updating the Multilateral Total or Partial Factor Productivity (MTFP / MPFP) modelling (Chapter 3). We have reviewed the MTFP / MPFP results, and they are consistent with SA Power Networks' expectations. We look forward to the AER incorporating these results within its 2023 benchmarking report prior to publication.

In March 2023, the AER released its final report on incentivising and measuring export service performance, committing to a full review of export service impacts on benchmarking by 2027, or earlier if better export services data becomes available. SA Power Networks continues to be concerned about the timing for completing this review. The review of benchmarking should not wait until CER is materially impacting on all networks. Noting this, we fully support the AER's collection of export services data and inclusion of commentary within its benchmarking report to recognise that outputs may not be fully capturing all outputs provided by DNSPs related to export services.

We acknowledge the AER's intention to continue to pursue incremental improvements to benchmarking datasets and methodologies, including consideration of the ongoing treatment of lease and SaaS implementation costs. SA Power Networks is particularly concerned about the accounting treatment change for SaaS implementation costs and the ramifications for benchmarking, with SaaS implementation costs being incurred up-front as non-recurrent opex costs. We note, the amount of implementation costs will vary year on year depending on the scope of the SaaS system being implemented, the amount of data to be converted to the new system and staff training that may be required.

Most DNSPs are expected to move to the new accounting standard for SaaS implementation cost treatment for their regulatory accounts from the start of their next regulatory control period. SA Power Networks is concerned inclusion of these non-recurrent costs, where material, in our benchmarking performance will distort relative comparability and opex efficiency assessments of DNSPs across the NEM. We encourage the AER to consider treatment of SaaS implementation costs within benchmarking over the coming year, with recommendations implemented in preparation for commencement of the 2024-29 regulatory determinations.

We acknowledge the AER's intention to undertake a review of the benchmarking comparison point for opex efficiency in 2025-26. We agree, to provide certainty to industry and other stakeholders, this review should be conducted after the current round of distribution revenue determinations have been finalised.

Please contact Debbie Voltz on [REDACTED] if you require any further information or clarification of the above.

Yours sincerely

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