31 January 2024

Dr Kris Funston
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Dr Funston

We welcome the opportunity to respond to the Australian Energy Regulator's (**AER**) Draft Decision on its Regulatory Information Order (**RIO**).

We support the aims of the AER's Network Information Requirements Review. It provides a timely opportunity to drive improvements in the quality of the electricity network data that the AER collects and shares. As the economic regulator of 13 electricity distributors servicing more than 10 million customers in the national electricity market (**NEM**), it is essential that the AER has high-quality data to inform its expenditure determinations and network performance reporting.
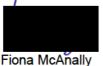
Our submission comprises of:

- Appendix A: a summary of our submission;

- Appendix B: benchmarking inputs – case studies

- Appendix C: data stratification for AER's replacement expenditure (**repex**) model

- Appendix D: our 'stakeholder comments' in the Draft RIO workbooks.

We look forward to continued engagement with the AER on its Network Information Requirements Review. We plan to continue reviewing the Draft RIO workbooks as we get ready for the 2025 financial year (**FY**) reporting. If we identify an issue after the lodgement of this submission, we will notify the AER as soon as practicable and intend to work collaboratively with AER staff within the tight timeframes that need to be met.
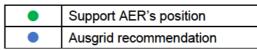
If you would like to discuss any aspect of our submission, please contact Shannon Moffitt, Regulatory Strategy Manager, via ██████████████████████████, or on ██████████

Regards,

Fiona McAnally
Head of Regulation (acting)

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●	Support AER's position	
●	Ausgrid recommendation	

Appendix A – Summary of our submission

Issue	Position	Ausgrid's submission
Start date	●	We support the AER delaying the start date of the RIO requirements until the FY25 reporting year. Our submission on the last round of consultation advocated for this delay and we welcome how the AER has responded to feedback on this issue.
Removal of 2014 CAM opex	●	It appears that the AER has removed the requirement to report opex using an electricity distributor's 'frozen' cost allocation method (**CAM**). This may impact the AER's benchmarking approach which uses 'frozen' CAMs to provide a like-for-like comparison of network services opex among electricity distributors. In particular, we note that the AER has removed the table called 'Total opex – 2014 CAM basis' from the Draft RIO Workbooks. We question whether this table should have been removed in its entirety. To align with the AER's 2023 Benchmarking Report we consider that the Final RIO Workbooks should include an updated table called 'Total opex – 2022 CAM basis'. This reflects the AER's decision to use 2022 frozen CAMs for benchmarking purposes rather than their 2014 versions.[1]
Regulatory adjustment journal	●	We request more information about the rationale for introducing a 'regulatory adjustment journal' under section 4.3 of the draft Order. Existing requirements, such as statutory declarations and regulatory audits, provide a high level of assurance regarding the reporting of data, including any adjustments. We recommend that the AER assesses the net gain (if any) from a further assurance measure, such as a regulatory adjustment journal, when measured against the additional cost and effort that would be imposed across all electricity networks.
Safety information	●	Safety data, while not currently provided to the AER, is reported to Ausgrid's jurisdictional regulator, IPART. To avoid inconsistencies in our AER and IPART data requirements, the final Order should require electricity distributors to submit the annual performance reports that they lodge with their respective jurisdictional safety and reliability regulator. We recommend that this is achieved by inserting a requirement that electricity distributors are required to submit their Electricity Network Safety Management System (**ENSMS**) performance report with their annual RIO response. If the AER requires additional information not included in the ENSMS then this could be requested on an ad hoc basis.
Clarity of reporting instructions for key inputs that impact benchmarking	●	The draft workbook instructions (**Draft Instructions**) for key benchmarking inputs could be more prescriptive so that electricity distributors report this information on a common basis. Presently, there is a risk that electricity distributors' performance under the AER's capital multilateral partial factor productivity (**MPFP**) and multilateral total factor productivity (**MTFP**) benchmarking metrics may be driven by differences in reporting, as opposed to their efficiency. We put forward this view in our submission on the last round of consultation, but the Draft Instructions have not been updated. We elaborate on our position via a select number of case studies in **Appendix B**. These case studies are indicative of a broader issue impacting the AER's benchmarking results that, in our view, requires an industry wide consultation

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[1] AER, Annual benchmarking report: Electricity distribution network service providers, November 2023, p.5.

		process.
Calculation of utilisation	🔵	We strongly recommend that the AER takes steps to drive greater consistency in the reporting of data in the RIO workbooks that are used to calculate utilisation. In its 2023 Network Performance Report, the AER states that utilisation is based on: • Non-coincident summated raw system annual maximum demand from EB RIN table 3.4.3.3 – Annual system maximum demand characteristics as the zone substation level – MVA measure; ***divided by*** • Zone substation transformer capacity from EB RIN table 3.5.2.2. Under the current and draft RIO instructions, there is significant scope for differences in how electricity distributors provide information on these inputs into calculating utilisation. For example, the reporting of zone substation transformer capacity allows electricity distributors to apply different de-rating factors with the result that utilisation could be higher (or lower) depending on high level assumptions that some electricity distributors appear to be applying (see Appendix B). We recommend tighter language in the RIO instructions and AER guidance on the application of de-rating factors and other adjustments that could be having a material impact on the utilisation reported in the annual benchmarking report.
Stratification of repex model data	🔵	Our comments in the *Operational Inputs (data category 02)* template draw attention to issues with the level of data stratification of repex model inputs. Appendix C to this submission provides a case study on how an insufficient level of stratification in RIN/RIO data used for the repex model can present issues.
Exemptions to assurance requirements	🟢	We support the AER's exemptions to audit or review requirements as outlined in clause 6.4 of Draft Order. These include the exemptions given to the workbooks outlined in clause 6.4.4.

Appendix B: Benchmarking inputs – Case Studies

Data input	Issue	Recommendation
Circuit capacity Cl. 3.4.1 of the proposed RIO Instructions	We have observed that differences in how electricity distributors report circuit capacity may influence benchmarking results. Note that under the AER's capital MPFP and MTFP benchmarking an electricity distributor will appear **more efficient** if it reports **lower circuit capacity**. Differences in reporting are possible under the current RIN and proposed RIO instructions due to the scope offered to interpret key terms. In particular, clause 3.4.1 of these instructions states that an 'electricity distributor must report estimated **typical** or **weighted average** capacities', without any guidance on how 'typical' or 'weighted average' capacities should be calculated. We are aware that some electricity distributors are applying different assumptions when reporting circuit capacity, such as the inclusion of derating factors. Endeavour Energy describes how it derates its circuit capacity in its basis of preparation, stating: "11kV and 22kV underground MVA circuit capacity is based on actual data and ratings, with a derating factor of 0.871 applied for these conductors in line with common conductor configurations and common de-rating factors as indicated in company standard MDI0011".[2]	We recommend that the AER undertakes an industry-wide review to better understand how each electricity distributor in the NEM is providing information on circuit capacity. After this consultation, the AER may then wish to consider rewording clause 3.4.1 to provide greater specificity in how 'typical' or 'weighted average' circuit capacities are calculated. This could include, for example, a standardised 'de-rating' factor so that the information each electricity distributor is providing for benchmarking purposes is reported on a common basis.
Zone substation transformer capacity Cl. 3.4.9 of the proposed RIO Instructions	Transformer capacity is an input into capital MPFP and MTFP, with a lower reported capacity leading to a better benchmarking performance. Clause 3.4.9 of the proposed RIO instructions states that '[f]or zone substations where the thermal capacity of exit feeders is a constraint, the electricity distributor must report thermal capacity of exit feeders instead of transformer capacity'. This requirement provides scope for interpretation which may lead to electricity distributors reporting lower transformer capacity (better benchmarking performance) based on differences in reporting methods. There is scope, for example, for electricity distributors to apply different de-rating factors. Endeavour Energy, who provides a detailed basis of preparation, outlines its approach as follows: 'Due to distribution feeder cable proximities within substations, a derating factor of 0.772 was applied when calculating feeder exit capacity constraints. The derating factor was	Our recommendation aligns to our comment above. We support the AER undertaking an industry wide consultation on how key benchmarking inputs are currently reported. This will reveal any differences in assumptions and allow the AER to tighten the language of its RIO instructions so that benchmarking inputs are reported on a common basis.

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[2] Endeavour Energy, *Economic Benchmarking: Basis of Preparation*, 30 October 2020, p. 45 (link here)

	chosen as the average derating for three or four cables in parallel'.[3] In comparison, Ausgrid does not presently apply any de-rating factor for the thermal capacity of exit feeders, meaning that our zone substation transformer capacity is higher (resulting in poorer benchmarking performance unrelated to productivity).	

[3]   Endeavour Energy, *Economic Benchmarking: Basis of Preparation*, 30 October 2021, p. 44 ([link here](link))

Appendix C – Data stratification for repex model

We have observed issues with the level of stratification applied to RIN/RIO data collected for the AER's replacement expenditure model (**Repex Model**). The case studies below provide examples of how this can impact Repex Model outcomes. Our aim in putting together these case studies is to provide greater context to our 'stakeholder comments' in *Data Category 02: Operational Outputs* which recommend changes to how the AER stratifies Repex Model data.

Case study: <=11 kV switches

Ausgrid has both 'ground' and 'overhead' switches that are currently reported within a single row (<=11kV switches) in the Category Analysis RIN. Under the preliminary RIO, this is set to continue in *Data Category 02: Operational Outputs*.

As ground switches are more expensive, an electricity distributor (like Ausgrid) with a greater proportion of ground switches will look inefficient under a weighted average approach to calculating our unit costs. This can be potentially misleading given that asset type decisions can often be driven by network characteristics or other exogenous factors. In the case of <=11kV switches, higher customer densities can constrain the use of overhead switches, particularly in CBD and urban terrains where network undergrounding means that only ground switches can be used.

We approached Nuttall Consulting about the results of the Repex Model prior to lodging our 2019-24 regulatory proposal in January 2019. In relation to <=11kV switches, Nuttall Consulting stated:

> I have concerns similar to Ausgrid that how a DNSP compares to the median is likely to be as much a factor of how its switch types compare as to its relative efficiencies. In this regard, I consider that it is likely that DNSPs such as Ausgrid with much higher portions of underground and chamber substations, are likely to benchmark poorly.[4]

Case study: <=11 kV fuses

The current stratification of <=11kV fuses has the same issues as switches. The current RIN and proposed RIO templates consider this asset category to capture a broad range of assets types, covering lower cost overhead fuses and higher cost indoor units.

Nuttall Consulting has previously commented on this issue:

> For similar reasons to those discussed above on 11kV switches, I agree with Ausgrid that this asset category, as described, may not be treated appropriately through the AER's methodology and further consideration should be given to the unit costs in Ausgrid's circumstances.[5]

Recommendation

We have made recommendations to improve the stratification of data collected via the RIO for the AER's Repex Model. These recommendations are outlined in our 'stakeholder comments' to *Data Category 02: Operational Outputs* in relation to the following asset classes: (1) <=11kV switches (2) <=11kV fuses (3) <=11kV circuit breakers.

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[4]   Nuttall Consulting, *Supplementary Repex Review 2019*, p.9 Link here
[5]   Nuttall Consulting, *Supplementary Repex Review 2019*, p.10 Link here