

From: [Marlene Garcia](#)
To: [Sasha Jergic](#)
Cc: [REDACTED]
Subject: RE: AER 2024 Annual Benchmarking Report for distribution - preliminary benchmarking results [SEC=OFFICIAL] [ACCC-ACCCANDAER.FID3748679]
Date: Monday, 26 August 2024 11:50:44 AM
Attachments: [image001.png](#)
[RE Ausgrid - revision to Dual Function Assets Capex and Opex SECOFFICIAL.msg](#)

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Hi Sasha,

Thank you for sharing the preliminary Quantonomics benchmarking report and the opportunity to comment.

Set out below are comments on data issues we noted in the benchmarking data files and report, our feedback on the refinement to AUC calculations for this year's benchmarking and monotonicity in the econometric models.

Our response does not contain confidential information and we are happy for it to be published.

1. Data issues

Capitalised corporate overheads (CCO)

The CCOs for Ausgrid in Quantonomics' data set for the period 2009-2018 do not include dual function assets (DFA) CCO. We believe we have agreed on and provided CCOs, inclusive of DFA, previously for the 2023 benchmarking, so we are confused as to why our CCOs now exclude DFA for these years.

For financial year 2023, Ausgrid's CCO including DFA is \$8,403,647 whereas Quantonomics data incorrectly has this as \$8,883,642.

Please refer to our email to the AER (networks data team) dated 10 April 2024, providing information and confirmation of our historical opex and capex including CCOs for SCS and DFA on a mutually exclusive and collectively exhaustive basis, as required for Category Analysis RIN Tables 2.1.1 and 2.1.2. The AER subsequently confirmed acceptance of our data. Based on this data, the sum of CCOs for SCS and DFA on an annual basis, is consistent with the CCO data we have provided to the AER in last year's benchmarking.

Annual User Cost of Capital (AUC)

Please review the AUC data used in the DNSP consolidated benchmarking data (2023) file as AUC data for 2006 to 2022 do not reflect the calculated AUCs in the DNSP AUC calculation (2023) file. Our understanding is that the latter is the underlying source data for AUC.

Please also review the calculation of the inflation rate in the WACC tab of the DNSP AUC calculation (2023) file. The inflation rate for FY2023 in particular is quite low at 1.88%; using the May 2022 RBA inflation forecasts and the AER glidepath approach would imply a forecast of 3.02%.

Quantonomics Report, Table 3.2

The Opex MFPP indexes in Table 3.2 of the Quantonomics reports for DNSP columns ESS to AVG are incorrect per the Opex MPFP indexes in Index Tables worksheet of DNSP-MTFPtables-charts-15July2024 output file.

2. Methodological refinement to the calculation of AUC

Thank you for providing a note explaining the methodological refinements to the calculation of AUC. We appreciate the reasons for the AER refining the calculation of AUC based on the real weighted average cost of capital and we consider the revised approach reasonable.

We also note that in adjusting the opex for benchmarking for CCOs, the AER have now recalculated benchmark tax liability. We also have no concern with this, having commented in previous year's benchmarking that the benchmark tax liability should be recalculated for consistency.

While we appreciate that refinements may be necessary to improve the benchmarking approach, we are, however, concerned with the lack of predictability or consistency of the benchmarking process, where changes are being made on a year-to-year basis, as issues like the impact of actual inflation on AUC calculations arise. We consider that the impact of such issues may be better anticipated under a holistic review of the benchmarking models and methodologies. The monotonicity performance of the econometric models, as discussed below, could also be investigated as part of the benchmarking review.

3. Econometric model performance

We reiterate our concern about the increasing monotonicity violations for the Translog models, as raised in our previous submissions. As Quantonomics stated in their latest report, the results for the TLG models represent a significant deterioration in the long sample period compared to the results in the 2023 and 2022 benchmarking. We note that Quantonomics also made a similar statement in last year's report.

Monotonicity violations are also observed in the short sample period for the LSETLG model, broadly similar to those observed in 2023 and 2022. In addition, we note that the results for SFATLG for the short period have been altogether omitted in the 2024 benchmarking due to non-convergence.

We note that the non-convergence is due in part to errors in the Stata ado files underpinning the xtfreedom package, which are unable to adequately deal with very large negative μ values. Varying the starting points or algorithms, as performed by Quantonomics in Section C.2.2, is unable to address this issue – the various algorithms and starting points will fail once the iterative process yields large negative μ values. We understand that modified versions of these ado files fix this mistake and should be used as a starting point in attempting to understand the issue at hand.

For the 2024 benchmarking, Ausgrid is one of three DNSPs where excessive monotonicity violations were noted in all TLG models in both long and short sample periods. Excluding opex MPFP, Ausgrid's average opex efficiency scores therefore reflect only those from the Cobb Douglas model specification. Not only does this affect comparability of average efficiency scores, it also makes average efficiency scores for some DNSPs being dependent on only one model specification. We note this is not the AER's stated preference.

As noted in our submission last year, there is no variable in the current benchmarking models that captures the improvement in opex efficiency in Australian DNSPs compared to New Zealand and Ontarian DNSPs and that this may be affecting the monotonicity performance of models. Although the AER proposed last year to examine modifications to the econometric models to include different time trends between jurisdictions, development work on this front does not seem to have progressed for this year's benchmarking. Given the increasing deterioration in monotonicity performance and now the non-convergence in the short period SFATLG, we consider work on investigating what is causing these issues should be a priority. Improving the performance of the econometric cost function models is important to maintain the reliability and credibility of the annual benchmarking process.

Thanks again for the opportunity to comment. Please let us know if you require clarification on any of the above.

Regards
Marlene

Marlene Garcia

Regulatory Analyst | Market Development & Strategy



Level 13, 24-28 Campbell St, Sydney NSW 2000

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