From: Christina Gornall
Sent: Thursday, 22 August 2024 11:07 AM
To: Sasha Jergic
Cc: [redacted]
Subject: RE: AER 2024 Annual Benchmarking Report for distribution - preliminary benchmarking results

Hi Sasha

Thank you for the opportunity to provide feedback on the 2024 preliminary economic benchmarking results detailed in the Quantonomics report. We have set out some points below:

- The methodological refinement for calculating the Annual User Cost (AUC), to address the issue of negative AUCs occurring in a high inflation environment, appears reasonable.

- As noted in our email of 7/5/24, we consider that the approach, as used last year, to addressing capitalisation differences in the MTFP and MPFP models appears reasonable. Some context about the differences in capitalisation from corporate overheads and leases could be beneficial – although that may be more relevant for the AER's report.

- The Quantonomics report notes that the AER has commissioned an independent review of the output weights, and depending on the outcomes of that review, the output weights may need to be revised for the final report. Benchmarking needs to reflect the significant changes in how the grid is being used and operated, and what the transition is aiming to deliver - Net Zero. Some examples include - how the uptake of behind the meter roof-top solar is impacting energy throughput, and the impact the increasing use of batteries, could have on ratcheted maximum demand. We would recommend that a review of the entire inputs/outputs' methodology would be sensible given this rapidly changing energy environment. For example, the AER should also be looking to include emissions reductions as an output – see CERRE report link. CERRE_Dynamic_Regulation_Report_FINAL-1.pdf

- We noted the following typos in the report:

    - On page 10 it says "The AUC is calculated by asset class for each year using asset value data reported by TNSPs" – presumably, this should say DNSPs?
    - *Table 3.2 DNSP multilateral opex partial factor productivity indexes, 2006–2023*, on page 31 of the report, currently duplicates Evoenergy's results in the column for Essential Energy. In turn Essential Energy's results are shown in Jemena's column and so on for the other distributors.

- In addition to the above considerations for the 2024 Annual Benchmarking report for distribution, we would like to reiterate our request for the development of an appropriate operating environment factor (OEF) for the level of vegetation costs that our network needs to spend to comply with legislative bushfire obligations in NSW – which are very real but not as obvious as in Victoria. Essential Energy's bushfire risk reclassification program was accepted as a contingent project and discussed at length in the AER's 2024-29 final determination (published 30/4/24). The AER acknowledged the need for us to comply with these obligations which form part of our Electricity Network Safety Management System (ENSMS). To compound the issue, the new inclusion of Victorian's bushfire obligation OEF and the resulting application of a negative OEF to Essential Energy, introduces more bias. The AER could look to develop an equivalent bushfire obligation based on NSW obligations, as an alternative to a vegetation OEF. As per recent correspondence with the AER we understand that a vegetation OEF is unlikely to be progressed in time for the 2024 report. Vegetation expenditure to mitigate bushfire risk is particularly material for Essential Energy and means that benchmarking is not truly reflective of our opex efficiency. We are very happy to assist where we can.

Kind Regards

Christina

Christina Gornall
Regulatory Analyst

PO Box 5730, Port Macquarie NSW 2444
essentialenergy.com.au
General Enquiries: 13 23 91
Outages & Faults (24hrs): 13 20 80