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29 October 2024

Australian Energy Regulator
Level 29
135 King Street
Sydney NSW 2444

Via Email

Submission to the 2024 Draft Annual Benchmarking Report for Electricity Distribution Network Service Providers

Essential Energy welcomes the opportunity to comment on the 2024 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. We have set out below some specific issues on which we would like to offer feedback.

Prioritising the development of an appropriate Operating Environment Factor (OEF) for vegetation management

The Australian Energy Regulator ("AER") has adopted an incremental approach to improving its benchmarking, which Essential Energy supports. Essential Energy welcomes proposed future development work, especially regarding improving and updating the quantification of OEFs, particularly around vegetation management. The material impact of differences in vegetation costs between distribution network service providers ("DNSPs") was included in the SapereMerz report '*Independent review of Operating Environment Factors used to adjust efficient operating expenditure for economic benchmarking*', prepared for the AER in 2018¹. In line with the recommendations in that report, we continue to reiterate our request for the development of an appropriate OEF for the level of vegetation costs that our network needs to spend, which are also based on compliance requirements with legislative bushfire obligations in NSW – these 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 30/4/2024). The AER acknowledged the need for Essential Energy 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, particularly if it was able to be developed relatively more easily than a vegetation OEF. Vegetation expenditure to mitigate bushfire risk is particularly material for Essential Energy and without the inclusion of an appropriate OEF it means that benchmarking is not truly reflective of our opex efficiency.

We request that the AER prioritise an OEF for vegetation/and or bushfire obligations in the near future, and ideally, as part of a comprehensive, standalone consultation process (similar to the consultation on capitalisation differences) rather than being addressed through individual reset determinations – so that

¹ [SapereMerz review of operating environment factors - October 2018.pdf](#)

all affected stakeholders can contribute meaningfully to improvements in the AER's benchmarking methodology.

Update of inputs/outputs methodology to reflect significant changes in how grid is being used and operated

The Draft Report notes that output weights were last updated for the 2020 Benchmarking report and that it will ensure that they are updated to include all available years of data for the 2025 Annual Benchmarking Report. We suggest that it would be sensible to review the entire suite of inputs and outputs given the speed of the energy transition. Updates to regulatory frameworks to appropriately reflect net zero are also discussed in the Centre on Regulation in Europe's ("CERRE's") 2024 report².

Benchmarking needs to reflect the significant changes in how the grid is now 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 that the increasing use of (and need for) batteries, could have on ratcheted maximum demand. In the context of increasing distributed generation - and export services now being a recognised distribution service - driving investments and operational costs, some suggestions for potential improvements include:

- ▶ The "Energy Delivered" metric being weighted higher as an output in the TFP calculations.
- ▶ Ratcheted Maximum "Generation" is another metric that could be included.

Continuous changes to benchmarking reports as a result of data revisions and methodology updates

Essential Energy recognises that benchmarking results need to reflect the best data and assumptions available, as well as incorporate robust modelling techniques. However, feedback from our business, is that year on year revisions and prior year changes in DNSP rankings, erode the confidence that users have in the credibility and relevance of the benchmarking information. The benchmarking process is a complex econometric exercise and modelling results can be highly sensitive to changes, producing very different ranking results for DNSPs year on year. If the number of revisions, and methodology changes could be minimised, then this would give users of the benchmarking reports a greater degree of trust in the information.

Benchmarking fact sheet

Essential Energy is supportive of the efforts of the AER to provide a factsheet, which gives an overview of benchmarking results in simpler terms. Suggested enhancements could be to reduce the length of the fact sheet to a couple of pages, showing the key points from the report in plain English and avoiding econometric terminology (e.g., MTFP); simpler language would be more engaging and help improve understanding of the benchmarking results for the general public. For more technical detail, readers could be referred to the benchmarking report.

Should you have any questions or concerns about this submission, please contact me on [REDACTED] or [REDACTED].

Yours sincerely,



Mary-Clare Crowley
Head of Network Regulation

² [CERRE_Dynamic_Regulation_Report_FINAL-1.pdf](#)