

From: Gillian Symmans
Sent: Thursday, 29 August 2024 5:26 PM
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 review and provide feedback on the AER's preliminary 2024 economic benchmarking results for distribution network service providers, including methodological refinements for the 2024 report.

We provide the following comments for your consideration:

- We have identified several potential issues with data:
 - We suggest that the AER reviews the AUC data used in the DNSP consolidated benchmarking data (2023) file (in the 'Annual User Cost' tab) as AUC data for 2006 to 2022 for DNSPs do not reflect the calculated AUCs in the DNSP AUC calculation (2023) file (in the 'Opt5 AUC' tab). Our understanding is that the latter is the underlying source data for AUC. We note that the AUC data in the DNSP consolidated benchmarking data (2023) file is used in the Capital MPFP and MTFP analysis.
 - We encourage the AER to review the calculation of the inflation rate in the WACC tab of the DNSP AUC calculation (2023) file. In particular, the inflation rate for FY2023 is low at 1.88%. Using the May 2022 RBA inflation forecasts and the AER glidepath approach implies a forecast inflation of 3.02%.
 - The opex MFPP indexes in Table 3.2 of the Quantonomics reports for DNSP columns ESS to AVG do not reconcile to the opex MPFP indexes in the 'Index Tables' worksheet of DNSP-MTFPtables-charts-15July2024 output file. For example, the ESS column appears to provide the EVO figures, the JEN provides the ESS figures, and so on.
 - We request that you check Evoenergy's value for FY23 SAIDI (EBRIN 3.6.1 DQS0106), which we believe should be 40.35. whereas the consolidated benchmarking file appears to use 40.67 in the opex MPFP benchmarking analysis.
- We consider the benchmarking results further demonstrate the significant statistical issues detailed in our revised regulatory proposal (see: [Appendix 3.1: Frontier Economics – AER benchmarking of DNSP opex](#)) and remain concerned about the usefulness of the benchmarking as a result. For example:
 - We note the work undertaken by Quantonomics in addressing estimation issues with the SFA models, in particular correcting the starting points and examining convergence. Quantonomics finds that the SFA-TL Short does not converge and is therefore excluded. 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 mu values. Varying the starting points or algorithms, as performed by Quantonomics in Section C.2.2, will not address this issue as the various algorithms and starting points will fail once the iterative process yields large negative mu values. We note 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.

- Even once the convergence issues are resolved (i.e., no convergence problems are identified), some of the models produce questionable results. For example, the SFA-TL Short model yields an efficiency score of 12.9% for United Energy, a reference DNSP, with scores less than 10% for Ausgrid, Endeavour and Energex. These results indicate that there is a fundamental mis-specification problem that is affecting all of the model, not just some. This issue was raised during the last round of resets for NSW/ACT networks, but was not resolved adequately. In order for the benchmarking analysis to be useful, the AER needs to (a) recognise the existence of a mis-specification problem, and (b) work with the industry to resolve the issue.
- We note concerns regarding increasing monotonicity violations for the Translog models. As Quantonomics have 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. Monotonicity violations are also observed in the short sample period for the LSETLG model, broadly similar to those observed in 2023 and 2022.
- We note that in all four cases, the Cobb-Douglas models are rejected in favour of the Translog specifications (C1.4 and C2.5, the short SFA-CD vs SFA-TL comparison is provided in the log files). Yet all four Cobb-Douglas models are used in benchmarking all DNSPs, including Evoenergy – in the case of Evoenergy the two LSE-TL models are also used.

We encourage the AER to incorporate further exploration of these issues into its forward benchmarking development program and welcome further engagement with industry on these issues.

We also remain concerned the output weights for the MPFP benchmarking models have not been re-estimated with recent data since 2018 or in light of the changed approach to benchmarking opex plus capitalised corporate overheads. We will engage further on this matter in our response to the CEPA review.

Kind regards

Gillian

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**We acknowledge the Traditional Custodians
of the lands on which we live and work.**

We pay respect to the Elders, past and present, and celebrate all First Peoples' continuing connections and contributions to Country.



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