29 October 2024

AER draft 2024 Annual Benchmarking Report for distribution network service providers

Thank you for the opportunity to provide feedback on the AER's preliminary 2024 Annual Benchmarking Report (ABR) and analysis.
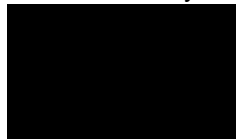
The AER has commenced an independent review into non-reliability output weights and acknowledged that output weights should be updated for additional data and the new approach to address differences in capitalisation between DNSPs. Given Evoenergy and other networks have advocated for the AER to review and update output weights since 2020, it is disappointing that output weights have not been recalculated for the 2024 ABR to at least take account of an additional 5 years of data. Notwithstanding, we acknowledge and support the AER's commitment in the 2024 ABR to complete the review and update the output weights for the additional years of data in the 2025 ABR and consider it important that commitment remains noted in the final report.

With the increasing prevalence of statistical issues, including for monotonicity violations and lack of convergence, which may be driven by multicollinearity and model misspecification, we support a detailed technical review. Evoenergy would like to engage with the AER on Phase 1 work, focusing on jurisdictional specific time trends and circuit length inconsistencies in the international dataset. We also recognise the importance of Phase 2 work on time varying inefficiency and encourage the AER to progress this vital aspect of the benchmarking development program.

The AER suggests its benchmark comparison point is conservative and accounts for general limitations associated with its econometric benchmarking models, such as for the specification of outputs and inputs, data imperfections, and other uncertainties when forecasting efficient opex and quantification of OEFs. The AER uses regulatory judgement to select a comparison point of 75% before any OEF adjustments, rather than comparing each DNSP to the most efficient DNSP. In previous submissions, Frontier Economics quantified the extent to which statistical uncertainty is captured between the benchmark comparator point and the efficiency score of the most efficient DNSP, finding that the AER's benchmark comparison point does not properly account for statistical uncertainty.[1] Evoenergy considers that the 0.75 comparison point is not conservative and does not adequately account for statistical and other uncertainties, given the significant prevalent statistical issues that undermine confidence in results.

Evoenergy welcomes opportunities for continuing engagement with the AER on its benchmarking development work. Should you have any questions or wish to discuss our response, please contact ███████████ at ███████████████████████ .

Yours sincerely

Megan Wilcox
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[1] See Appendix 3.1: Frontier Economics – AER benchmarking of DNSP opex Revised regulatory proposal for the Evoenergy electricity distribution determination 2024 to 2029, November 2023, pp. 40-42