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Dear Mr Anderson

Draft Annual Benchmarking Report for Electricity Distribution 2015

AusNet Services welcomes the opportunity to respond to the AER's Draft Annual Benchmarking Report for Electricity Distribution 2015 (the Benchmarking Report).

Productivity benchmarking, formulated well, can provide useful high level insights into the relative efficiencies of distributors. This can play a valuable investigative role in regulatory decision making as well as inform stakeholders of how distributors compare against one another. However, as results are highly sensitive to model specification, productivity benchmarking is not a precise tool, and is better suited to high-level observations than it is to being used deterministically. It is also important to consider the results of alternative approaches in interpreting benchmarked performance.

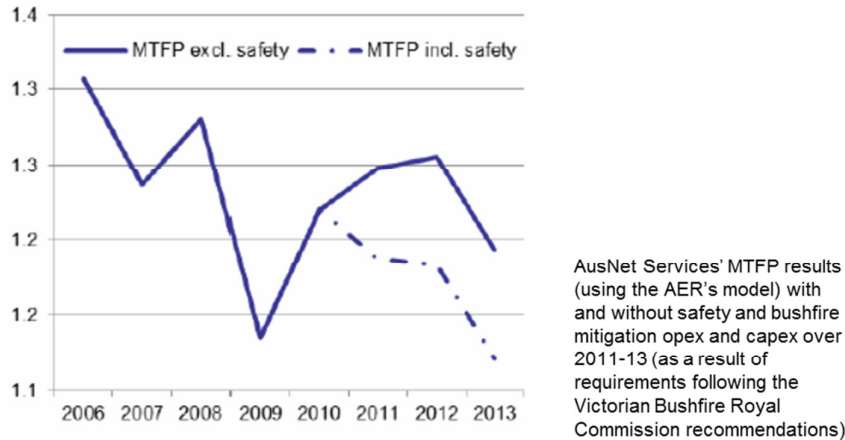
AusNet Services notes that the general trend of declining productivity across the sector under multifactor total factor productivity (MTFP) continues in the 2014 results. This is possibly driven by declining energy consumption and slowing growth in peak demand (outputs). In Victoria safety obligations (impacting inputs) may have also played a role in this trend over time.

Some of the modelled data has changed in the AER's MTFP analysis since last year but the model specification remains the same. While defining appropriate inputs and outputs is challenging, it is appropriate to review model design every two or three years to extract more meaningful results over time. For future refinements to the preferred model, the AER might wish to consider how the model deals with safety and how it can improve the reliability output measure.

Safety and productivity

Safety is a critical component of providing distribution services. Maintaining and improving safety performance is a driver of significant expenditure for many distribution businesses, including AusNet Services. Recent bushfire safety legislative requirements have lead AusNet Services to invest heavily in reducing risk of bushfire ignition since 2010. This is planned to continue over the next decade, and drives asset base and opex growth, which in turn, negatively impacts performance under a productivity model which does not recognise the outputs of that investment. The following chart, taken from AusNet Services' 2016-20 Regulatory Proposal, illustrates this point.

Figure 1: AusNet Services 2006-13 MTFP with/without bushfire safety expenditure



The impact of safety expenditure on productivity has been material and AusNet Services' productivity trend over time affected. While AusNet Services has delivered clear safety improvements and benefits from its recent investments, this is not captured in the AER's current MTFP model outputs. A means of either measuring safety as an output, or excluding safety-driven costs from the inputs, needs to be considered in providing comparable and meaningful results across the sector.

Reliability output measure

The current measure of reliability is based upon raw customer minutes unsupplied by each network. This figure is highly subject to weather and does not reflect a network's underlying and valued service performance. It would be preferable for the output to be based on a measure which aligns with the network's performance results under the STPIS. This would reflect a truer view of the reliability attributes that distributors have capacity to control and allow it to be measured in a more meaningful way which is consistent with a distributor's incentives.

Addressing the above issues would make the benchmarking results more meaningful and useful.

This submission relates only to distribution. In relation to transmission, AusNet Services refers you to Grid Australia's submission.

AusNet Services would be pleased to discuss the attached submission in further detail with you at your convenience. Please contact me on 03 9695 6627 or anh.mai@ausnetservices.com.au if you have any questions in relation to this submission.

Sincerely,



Anh Mai
 Manager Economic Regulation
AusNet Services