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28 October 2021

Ms Claire Preston
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Claire

Feedback on the 2021 Draft Annual Benchmarking Report for Electricity Distribution Network Service Providers

Essential Energy welcomes the opportunity to comment on the 2021 Draft Annual Benchmarking Report for Distribution Network Service Providers ("Benchmarking Report").

The Australian Energy Regulator (AER) has adopted an incremental approach to improving benchmarking, which Essential Energy supports. In this respect, the recent improvements to the methodologies used to calculate the opex price index, the reliability index and the annual user cost of capital are appreciated. Essential Energy notes the AER's commentary on having made limited progress advancing its program of development work in 2021, due to competing priorities and suggests that a sensible approach might be to establish a list of development priorities in consultation with stakeholders.

Suggested top four priorities

Essential Energy has reviewed the list of development activities identified in the Benchmarking Report and has outlined below, our suggestions of the top four items which would add the greatest value to the annual benchmarking analysis in the short term:

1. Development of a reliable approach to account for differences in cost allocation and capitalisation policies between Distribution Network Service Providers.
2. Investigation of ways to improve the statistical performance of the econometric benchmarking models (e.g., to minimise monotonicity violations), and the establishment of clear, consistent and transparent criteria to determine when individual models should be excluded on statistical grounds.
3. Review of the methodology for estimating output weights.
4. Further review of Operating Environment Factor (OEFs) adjustments, including:
 - a. Consideration of a broader range of material OEFs (including vegetation management, extreme weather events and fauna);
 - b. Improvements to the quantification of material OEFs;
 - c. Consideration of ex-ante OEF adjustments (i.e., application of OEF adjustments to DNSP data before conducting the benchmarking analysis) rather than the current approach of applying ex-post OEF adjustments (i.e., application of OEF adjustments to target efficiency scores); and
 - d. Review and quantification of 'immaterial' OEFs.

Distributed Energy Resources

Essential Energy welcomes the AER's commitment to reviewing how distributed energy resources (DER) should be accounted for in the annual benchmarking analysis. The increasing impact of DER on distributors' networks will result in higher opex and capex to manage safety and reliability. It is therefore important that this is incorporated into benchmarking analysis and outputs are adjusted accordingly. This will help ensure that the results provide a more accurate reflection of the efficiency of distribution businesses.

Should you have any questions or concerns about this submission, please contact Natalie Lindsay, Head of Regulatory Affairs, [REDACTED]

Yours sincerely



Chantelle Bramley
General Manager, Strategy Regulation and Corporate Affairs