

14 October 2016

Mr Warwick Anderson  
General Manager – Network Finance and Reporting  
Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601

By email: [AERinquiry@aer.gov.au](mailto:AERinquiry@aer.gov.au)

Dear Warwick

**re: Draft Annual Benchmarking Report for Electricity Transmission 2016**

ElectraNet appreciates the opportunity to comment on the Australian Energy Regulator's (AER) Draft Annual Benchmarking Report issued to ElectraNet on 23 September 2016. We recognise that the Annual Benchmarking Report is intended to help inform the expenditure forecasting component of the Better Regulation framework for NSPs.

ElectraNet has reviewed the Draft Report and has identified some ongoing issues, which need to be addressed to ensure that the Annual Benchmarking Report forms a valuable component of a robust and consistent benchmarking approach.

ElectraNet welcomes the draft report highlighting that there are a number of limitations that remain within the data, which need to be recognised. In particular, when considering the relative efficiency of transmission networks it is important to consider the following data issues:

- Capex/ opex trade off; and
- Reporting of transformer capacity.

Capex/ Opex Trade Off

One issue with making benchmarking comparisons using the Opex Partial Productivity Index, is differences in how capital and operating expenditure is allocated. Whether an activity is considered operating or capital expenditure is largely determined by each business' accounting and cost allocation framework and can make a difference in opex reporting outcomes.

ElectraNet undertakes significant operational refurbishment activities (i.e. opex) to keep assets operating effectively while maintaining an acceptable level of risk. This prolongs asset life and defers capital asset replacement expenditure (i.e. capex). For other TNSPs, the best solution may be to undertake capital expenditure under the same circumstances.

Network support costs can also distort opex benchmarking. Network support costs are payments incurred through the funding of alternatives to network augmentation when this is the least cost solution for customers.

When benchmarking operating expenditure the AER should adjust TNSP operating expenditure for network support and operational refurbishment costs. This will ensure that operating expenditure efficiency benchmarking is not distorted by the inconsistencies identified above.

### Transformer Capacity

ElectraNet notes that for the purposes of the draft Annual Benchmarking Report, the AER has chosen to use ElectraNet's recast entry and exit connection point kV data. The AER draft report is based on using the low side/ distribution voltage at each connection point rather than the high side/ transmission voltage which ElectraNet reports in its annual economic benchmarking RIN response.

ElectraNet considers that the low side/ distribution voltage is an inappropriate measure for transmission scale services. The overwhelming majority of the equipment owned and maintained by ElectraNet (and other TNSPs) within each connection point will be at the high side/ transmission voltage. Therefore, ElectraNet is of the opinion that reporting the high side/ transmission voltage more reasonably reflects the voltage of the connection point owned and maintained by ElectraNet.

It is ElectraNet's view that the connection point kV measure in its current form is misleading and does not reasonably normalise base RIN data to account for unique network characteristics and operating environments.

While ElectraNet remains supportive of the general thrust of the AER's benchmarking analysis, we look forward to working closely with the AER to develop a more suitable measure for meaningful comparison of performance between TNSPs.

I look forward to your further consideration of these issues. Please contact Bill Jackson on (08) 8404 7969 to discuss the issues described above in more detail.

Yours sincerely



Rainer Korte  
**Executive Manager Asset Management**