



Part of Energy Queensland

25 October 2022

Claire Preston
Director, Network Expenditure
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

By email: [REDACTED]

Dear Ms Preston

AER Consultation – Draft 2022 Annual Benchmarking Report for Electricity Distribution Network Service Providers

Ergon Energy Corporation Limited (Ergon Energy) and Energex Limited (Energex), operating as Distribution Network Service Providers (DNSPs) in Queensland, appreciate the opportunity to provide a submission to the Australian Energy Regulator (AER) on its Draft 2022 Annual Benchmarking Report for DNSPs (the Draft Report) and supporting documents, such as the Quantonomics Memorandum on “Opex Cost Function Development”.

While Ergon Energy and Energex appreciate that there are inherent limitations with all benchmarking techniques, we are concerned that the AER recognises that its multilateral partial factor productivity (MPFP) and multilateral total factor productivity (MTFP) analysis does not consider, or adjust for, all material differences in the operating environments of DNSPs. The AER has not clearly explained the implications of this deficiency or how it should be considered when interpreting results. We suggest the AER explicitly state in the Executive Summary and in section four, that:

- the true level of efficiency may be under/overstated by the MPFP/MTFP analysis for some DNSPs due to a failure of the analysis to consider differences in operating environment; and
- the relative efficiency and rankings of DNSPs implied by the MPFP and MTFP should not be evaluated without due consideration

The Draft report also, makes definitive statements regarding DNSPs improved or declining efficiencies in 2021, without qualifications. Such statements may be misleading and result in unjustified reputational impacts for DNSPs. We suggest reframing these statements to account for recognised limitations and reduce the risk of misinterpretation.

Section 8 of the Draft Report identifies a number of areas in which the AER is currently undertaking or is planning to undertake benchmarking development work. Ergon Energy and Energex note that much of this work has been highlighted in previous Annual Benchmarking Reports. The provision of indicative timeframes for the commencement and conclusion of the various streams of development work would be beneficial for DNSPs and other stakeholders and provide confidence that the issues previously identified as priorities will be addressed in a timely manner. Matters that may have a more direct bearing on DNSPs in forthcoming revenue resets should be prioritised and addressed through comprehensive, stand-alone consultation processes to provide opportunity for all affected stakeholders to contribute meaningfully to improvements in the AER's benchmarking methodology.

The memorandum prepared by Quantonomics investigates possible options for addressing ongoing performance issues with the opex econometric cost function models. Ergon Energy and Energex consider that two weeks is insufficient to allow DNSPs to provide meaningful feedback on these options. Given that any changes in approach may have a material influence on future outcomes, Ergon Energy and Energex suggest a more comprehensive consultation on this matter be separately undertaken.

Should the AER require additional information or wish to discuss any aspect of this submission, please contact me or Sarah Luinys on [REDACTED]

Yours sincerely

Alena Christmas

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