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26 October 2022

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

Dear Claire

Feedback on the 2022 Draft Annual Benchmarking Report for Electricity Distribution Network Service Providers

Essential Energy welcomes the opportunity to comment on the 2022 Draft Annual Benchmarking Report for Distribution Network Service Providers (the Draft Report) and on the Quantanomics Memorandum on Opex Cost Function Development (the Memorandum). This submission does not contain any confidential information and we are happy for it to be made publicly available.

The Australian Energy Regulator (AER) has adopted an incremental approach to improving benchmarking, which Essential Energy supports. In this respect, the current development work on addressing the impact of differences in capitalisation on the benchmarking results, examining the impact of export services on benchmarking and the AER's measurement of productivity, as well as improvements to the econometric models are appreciated. Essential Energy welcomes proposed future development work, especially regarding improving and updating the quantification of operating environment factors (OEFs), particularly around vegetation management.

Below we have set out the specific issues on which we would like to offer feedback.

Highlighting the importance of OEF's in interpreting the benchmarking results

The Draft Report highlights in the summary box at the start of Section 4 and also in Section 4.2.3 that the multilateral partial factor productivity (MPFP) and multilateral total factor productivity (MTFP) analysis does not take into account, or adjust for, differences in the operating environments of the distribution network service providers (DNSPs). This is helpful in providing the context within which the benchmarking results should be interpreted. To further aid interpretation of the results, the Draft Report could give this caveat more prominence by also highlighting it in the Executive Summary and further explaining that:

- > the true level of efficiency may be understated by the MPFP/MTFP analysis for some DNSPs, and overstated for other DNSPs, as the analysis doesn't take into account differences in operating environment; and therefore
- > the relative efficiency and rankings of DNSPs implied by the MPFP and MTFP should not be taken at face value.

Development work – indicative timeframes and prioritisation

Section 8 identifies a number of areas where the AER is currently undertaking benchmarking development work or planning to do so. It would be helpful if the AER could set out indicative timeframes for starting and concluding the various streams of development work to allow stakeholders to plan properly, and to allow submitters to see that the issues they have previously identified as priorities will be addressed in a timely way.

In particular, prioritisation of issues that would have a more direct bearing on DNSPs in upcoming revenue resets (e.g., resolution of a number of OEF issues that the AER has flagged – such as vegetation management OEFs) would be welcomed. It may be more appropriate for these issues to be addressed through comprehensive, standalone consultation processes (similar to the consultation on capitalisation differences) rather than be addressed through individual reset determinations – so that all affected stakeholders can contribute meaningfully to improvements in the AER’s benchmarking methodology.

Quantanomics Memorandum on Opex Cost Function Development

Essential Energy welcomes the AER’s initiative to consider potential improvements to the translog models to address the problem of monotonicity violations. We are keen to provide feedback on the issues raised in the Memorandum and participate in AER consultations on ways in which the benchmarking methodology could be developed and improved further.

The issues canvassed in the Memorandum are highly technical and detailed and as such, it has not been possible to comment meaningfully on the paper within the timeframes for feedback on the Draft Report. Given that the results presented in the Draft Report do not rely on the advice provided by Quantanomics on potential changes to the translog models, Essential Energy would appreciate it if the the AER could provide stakeholders with an opportunity to consider the Memorandum more fully and to provide feedback through a process separate to the development of the 2022 Annual Benchmarking Report.

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

Yours sincerely

Anne Pearson
Chief Corporate Affairs Officer