26 October 2022

Arek Gulbenkoglu
General Manager
Network Expenditure
Australian Energy Regulator
GPO Box 3131
Canberra, ACT, 2601

Dear Mr. Gulbenkoglu

Thanks for the opportunity to provide feedback on the draft of the Australian Energy Regulator's (AER's) 2022 annual benchmarking report for distribution businesses. These comments do not contain any confidential information and we are happy for them to be made publicly available.

In the draft, the AER recognises in the summary box at the start of Section 4 and also in section 4.2.3 that its MPFP and MTFP analysis does not take into account, or adjust for, differences in the operating environments of the DNSPs. However, the implications of this shortcoming are not clearly explained and, therefore, how the MPFP and MTFP results should be interpreted. It would be useful for the AER to state explicitly (ideally in the executive summary and in section 4 - i.e., wherever the MPFP and MTPF results are presented) that:

- the true level of efficiency may be understated by the MPFP/MTFP analysis for some DNSPs, and overstated for other DNSPs, due to a failure of the analysis to 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.

Further, the draft report makes very definitive statements like DNSP X improved its efficiency over 2021, but DNSP Y's efficiency fell. These statements should be qualified to state that the analysis does not take into account differences in operating environment. Similarly, the rankings presented by the AER suggest that certain DNSPs are much more efficient than others, but these rankings might be quite different if the differences in operating environment were taken into account. We consider it important that the annual benchmarking report acknowledges this.

Section 8 identifies a number of areas in which the AER is currently undertaking benchmarking development work, or planning to do so. We commend the AER on progressing some of this work, however the delayed release of the draft guidance note on differences in capitalisation has made it challenging for Evoenergy to consider the impacts of this in preparing our regulatory proposal for the 2024–29 regulatory period, due to the AER in January 2023. It would be helpful if the AER could set out indicative timeframes for starting and concluding the remaining streams of development work to allow stakeholders to plan properly, and to provide confidence that the issues that submitters have previously identified as priorities are going to be addressed in a timely way. The AER should particularly prioritise issues that would have a more direct bearing on

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DNSPs in upcoming revenue resets (e.g., resolution of a number of OEF issues that the AER has flagged – such as vegetation management OEFs). These issues should be addressed through comprehensive, standalone consultation processes (similar to the consultation on capitalisation differences) rather than through individual reset determinations – so that all affected stakeholders can contribute meaningfully to improvements in the AER's benchmarking methodology.

We support the AER's comments regarding the use of 0.75 as the benchmark comparison point. We agree that it is appropriate to apply a conservative approach, given the data issues and remaining areas of development.

In regards to the Quantonomics memorandum, we consider it preferable for the AER to consult on this complex topic through a separate consultation process, as with the other development areas. We have not had capacity to consider this memorandum in the timeframe provided. As we finalise our regulatory proposal, we will consider whether the findings have any implications for the assessment of Evoenergy's base year opex efficiency.

Once again, thank you for considering our feedback on the draft report. Please contact Gillian Symmans, Group Manager Regulatory Reviews, on ███████████████████ if you would like to discuss our comments further.

Yours sincerely

Peter Billing
General Manager, Evoenergy

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