

22 August 2014

Mark McLeish
Director
Australian Energy Regulator
GPO Box 520
Melbourne, VIC 3001

Via email: expenditure@aer.gov.au

Dear Mark

Draft Annual Benchmarking Report for Electricity Transmission

Grid Australia appreciates the opportunity to comment on the draft of the AER's first annual benchmarking report for electricity transmission network service providers (TNSPs).

Grid Australia understands that the purpose of this report is to describe, in reasonably plain language, the relative efficiency of each TNSP.

While this is the first report of its nature, Grid Australia considers it important to adopt a robust approach that reflects good regulatory practice, in order to present meaningful outcomes. Grid Australia has concerns that some of the benchmarking, as currently presented, may not achieve this. This submission discusses matters of an overall nature, and individual TNSPs may also provide submissions discussing more detailed or business specific issues.

Grid Australia supports the AER's acknowledgement in the draft report that caution should be exercised in interpreting the results, recognising in particular that benchmarking of electricity transmission networks is in its relative infancy. It would also be appropriate to transparently state the limitations of (and assumptions behind) the benchmarking results throughout the report, in order to avoid the potential for a misunderstanding or misrepresentation of the results. This includes limitations of the comparability of data used to derive the benchmarks, for example, due to differences in definition or approach between TNSPs which may be ascertained from the basis of preparation documents submitted with the Economic Benchmarking RINs.

One example of this relates to the partial productivity indicator on cost per kilo volts (kV) of connection point capacity. Grid Australia is aware that, while meeting the definitions set out in the economic benchmarking RIN, different TNSPs have reported the data which relates to this indicator on different bases. Grid Australia considers these differences to be material, and would be willing to discuss them further with the AER.

In reviewing the draft report, Grid Australia engaged HoustonKemp to provide independent expert advice, which is attached to this letter. The advice identifies three main issues:

1. There are limitations to benchmarking TNSPs in Australia due to the small sample size and the diversity between the transmission networks being compared. It is important that these limitations are highlighted in the report in order to provide a balanced view of the use of the data, and that differences are considered in interpreting the results.
2. There is no robust basis for determining that the model specification for multilateral total factor productivity (MTFP) developed by Economic Insights is 'the most appropriate'. The adoption of alternative model specifications leads to significant variations in measured MTFP and relative rankings across the businesses. It is important that further testing and development of the model takes place prior to its application in a revenue determination process.
3. The limitations of the measures should be recognised, noting that it is not possible to draw firm conclusions about efficiency from the PPI benchmarks due to the exclusion of external factors, and the MTFP results reflect productivity changes rather than business efficiency.

Grid Australia notes significant apparent differences in the relative performance of TNSPs between the partial productivity indicators and MTFP results, which highlights some inconsistency in the selection of output measures and may call into question the robustness of one or both techniques. Grid Australia recommends that, given the specific concerns regarding the robustness of the MTFP model referred to above, this benchmark be omitted from the report until such time as the MTFP model can be demonstrated to be robust and meaningful.

While Grid Australia understands that the timeframe for the completion of this report is challenging, Grid Australia would welcome the opportunity to discuss these matters further with the AER.

If you would like to discuss any aspect of this submission, please contact Andrew Kingsmill on 02 9284 3149.

Yours sincerely



for

Rainer Korte
Chairman
Grid Australia Regulatory Managers Group