

9 October 2015

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

Lodged by email: AERinquiry@aer.gov.au

Dear Warwick

Draft Annual Benchmarking Report for Electricity Transmission 2015

Grid Australia welcomes the opportunity to provide a submission on the AER's Draft Annual Benchmarking Report for Electricity Transmission 2015.

Grid Australia supports the development of a robust benchmarking framework. Benchmarking can play an important 'investigative' role in identifying areas for more intensive exploration and assessment in the regulatory determination process. However, in transmission, there are limitations to the applicability of benchmarking and complexities in establishing tools that produce meaningful results, which are yet to be overcome.

In transmission, benchmarking is more relevant to operational expenditure, as the inherent differences between transmission network design, size and density significantly impact the use of benchmarking of capital measures. The small sample size available and the extreme sensitivity of the AER's benchmarking model to different specifications means the benchmarking results are not robust and their explanatory value is extremely limited for transmission. This is acknowledged by the AER:

The ability to draw conclusions about relative efficiency from benchmarking transmission networks within Australia is limited, however, due to the small number of networks. Therefore, we present the time trend in expenditure over the 2006 to 2014 period, which enables comparison of the trend in performance for each transmission network over time.

Draft Report, page 16

It is important to highlight and explain these limitations in the Final Report to provide an informed and balanced view in interpreting results. The Draft Report does this quite usefully in a number of areas, but not all.

The Draft Report continues to include multilateral total factor productivity (MTFP) results. As Grid Australia has previously highlighted, there is no robust basis for determining that the chosen model specification is 'the most appropriate'.

Apparent differences in the relative performance of TNSPs between the MTFP and partial productivity indicators continue to exist. This would indicate issues in the MTFP specification, as it is not producing results which make sense when checked against basic partial productivity indicators. Grid Australia therefore encourages the AER to further develop the MTFP model, in consultation with stakeholders, to ensure it is robust and provides useful and meaningful insights.

As noted previously, differences in definition or approach between TNSPs in reporting Regulatory Information Notice (RIN) information also continue to be apparent, which further limits the comparability of the data used to derive the benchmarks.

Grid Australia would be pleased to work closely with the AER to further develop its benchmarking tools and to produce the next iteration of the benchmarking model.

Please do not hesitate to contact me on (08) 8404 7983 or via e-mail at korte.rainer@electranet.com.au if you wish to discuss any matter further.

Yours sincerely



Rainer Korte
Chairman
Grid Australia Regulatory Managers Group