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By email: evan.lutton@aer.gov.au

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Dear Evan

EB240517: Submission to the AER's transmission benchmarking issues paper

Jemena Electricity Networks (JEN) appreciates AER initiating this consultation on issues related to the economic benchmarking of Transmission Network Service Providers (TNSPs), and welcomes the opportunity to make this submission.

The key messages that we touch on in this brief submission are the following:

- A number of issues that the AER is currently consulting on in relation to TNSP benchmarking may also be pertinent to the approach the AER uses to benchmark DNSPs. There could be additional issues that are relevant only to DNSPs (such as different functional forms of models used, stability of models with new data, etc). We recommend that the AER undertake a separate consultation process on issues relevant to the application of Total Factor Productivity (TFP) analysis and Partial Factor Productivity (PFP) analysis for DNSPs to allow interested parties to raise and comment meaningfully on these issues.
- In order to help stakeholders participate in any such consultation process, the AER should provide further information in relation to certain aspects of its TFP and PFP analysis for DNSPs.

Whilst this consultation relates particularly to issues pertaining to the AER's approach to economic benchmarking for TNSPs, JEN notes that there are a number of areas in which the AER's implementation of TFP analysis and PFP analysis for TNSPs overlaps with its application of these benchmarking techniques for Distribution Network Service Providers (DNSPs). For example, the question of whether the AER's econometrically-estimated output cost shares should be updated to take account of the latest information is relevant to the AER's approach to benchmarking both the TNSPs and the DNSPs.

Further, given the significant overlap in a number of areas between the AER's approach to TNSP and DNSP benchmarking (with respect to TFP and PFP analysis), JEN is concerned that the conclusions the AER may draw following this consultation process could influence the AER's approach to benchmarking DNSPs.

The AER's application of TFP analysis and PFP analysis has material consequences for DNSPs:

- The AER publishes TFP and PFP analyses in relation to DNSPs each year in its Annual DNSP Benchmarking Report. These analyses are visible to JEN's investors, consumers and other stakeholders. From JEN's perspective, it is essential that any AER benchmarking analyses relied on by these interested parties is as robust and informative as possible.
- In the last round of resets, the AER used PFP analysis to inform its estimate of assumed productivity growth under its 'base-step-trend' approach. As such, the AER's PFP analysis played a direct role in determining DNSPs' expenditure allowances.
- In the last round of resets, the AER used PFP analysis to cross-check the results from its preferred opex econometric benchmarking model.

Given the importance of TFP and PFP analysis for DNSPs, JEN submits that the AER should not automatically adopt changes to its approach to benchmarking DNSPs following on from its present consultation on TNSP benchmarking issues. Rather, JEN seeks that the AER undertake a separate consultation process focussed expressly on methodological issues related to its application of TFP and PFP benchmarking of DNSPs. This would allow DNSPs, consumers and other interested parties to make considered submissions on any matters that are relevant to the AER's application of TFP and PFP benchmarking of DNSPs.

To allow us and other interested parties to participate meaningfully in any such consultation process, it would be helpful if the AER could provide further information about certain aspects of its current implementation of TFP and PFP analyses for DNSPs. These include:

- Providing any model and modelling code relied on by the AER (and its adviser, Economic Insights) that pertain to the AER's TFP and PFP analysis for DNSPs for measuring output shares.
- Providing explanation as to why a Translog cost function or a Leontief cost function is appropriate or preferable to any other cost function that could be adopted. JEN notes that it would be helpful if the AER could provide JEN with further explanation of its rationale for seeking to estimate output share weights using Translog and Leontief cost functions.

There may be further matters on which JEN may wish to seek clarification once it has had an opportunity to study the AER's TFP and PFP models and modelling code. JEN looks forward to working closely and collaboratively with the AER on ways to refine its TFP and PFP analysis for DNSPs in future.

Please contact me on (03) 9173 8218 if you would like to discuss any aspect of this letter further.

Yours sincerely

[signed]

Sandeep Kumar
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