Ref: A2362263

12 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

AER Reference: D15/100555
Draft 2015 Annual Benchmarking Report - Electricity TNSPs

Thank you for the opportunity to provide comment on the Australian Energy Regulator's (AER's) Draft 2015 Annual Benchmarking Report for Transmission Network Service Providers (TNSPs). This submission further supports Powerlink's submission to the AER on 16 September, which identifies key differences in the preparation of capital and operating expenditure data by TNSPs.

Overall Benchmarking Requirements

Powerlink supports an approach to benchmarking that creates a well-founded and well understood benchmarking framework. Where this has been established, benchmarking can be used as a tool to identify where further investigation of differences in the measures may be required. Fundamental components of such a framework include:

- consistent and reasonable quality data - so that participants and stakeholders can be assured that the data prepared by participating TNSPs has been prepared on a like-for-like basis and is of reasonable quality. It is not clear from the body of the current draft that the data used in the report has been prepared on a consistent basis or where data may be less robust, due to the need for businesses to estimate the data required by the AER in the RINs;

- having regard to operating environment and for such analysis to explain how any material differences have been taken into account. Powerlink has identified some concerns in this regard in the detailed feedback below; and

- that the benchmarking data that is sought and used to compare TNSPs is meaningful to and reflective of the operation of an electricity transmission business (rather than a distribution business).

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Specific Feedback

Powerlink also provides more detailed feedback in a number of areas below:

- Opex Partial Factor Productivity (PFP) – this measure featured prominently in the previous report by Economic Insights and the industry average Opex PFP is understood to have been applied by the AER as the productivity growth factor in its opex base, step trend model. It would be useful to identify what value the AER's measure currently shows and to understand why this may be the case.

- Table 1: Transmission Network Outputs (2009-14 average) – appears to contain several errors. For example, the column labelled circuit length shows the data for route length instead. The column for transformer capacity has obvious incorrect data and it is not clear from where this has been sourced.

- Table 2: Transmission Network Input Costs (2010-14 average) - footnote 13 says the nominal values have been converted to real $2013 but the title of the table indicates that they are real $2014.

- Section 2.3 Operating Environment Factors (p15) – while the second last paragraph states that the MTFP model allows for differences in network density such as number of connections per km of line, there is no evidence in section 3.2 that this occurs. Further, the last paragraph refers to the relative efficiency of *distributors*, when this is the transmission report. Given the source error identified in the draft report, it may be prudent for the AER to check and confirm that the benchmarking for *transmission* does actually account for the differences in operating environment factors identified by the AER in the relevant sections.

- Connection point kV – Powerlink notes that the AER has made some data adjustments for industry structure so that multiple DNSP connections at a single node are treated as a single exit point and corrected some of the data errors in Victoria, such as counting embedded generators. However, the data does not appear to be presented on a common basis. For example, the AER could adopt voltage levels for TNIs set out in AEMO's Marginal Loss Factor Report. The AER also appears to have included connections for some Snowy generators in the Victorian pricing region in the connection point count for the Victorian TNSP. Powerlink understands that all Snowy generators connect to the NSW TNSP's network. To the extent the AER has checked to ensure there is no double counting of these points, it would be useful to stakeholders to expressly identify this in the body of the report.

- Transformer capacities – the information does not appear to adjust for the differences in Powerlink data compared to other TNSPs although Powerlink has provided information to the AER in this regard. The report also claims that Powerlink performs poorly on these measures. Powerlink considers that the weight of evidence indicates that the data presented is inconsistent, misrepresentative and clearly does not support such a statement.

Powerlink recognises that the AER's annual benchmarking framework for transmission businesses is still in its early stages of development and that there remain a number of challenges ahead to improve it. As in the past, Powerlink is willing to work with the AER to achieve such an outcome.

If you have any questions regarding this submission, please contact Jennifer Harris.

Yours sincerely

Garry Mulherin
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