



25 October 2017

Mr Tony Weir
Assistant Director – Networks Branch
Australian Energy Regulator
Level 38, 360 Elizabeth Street
MELBOURNE VIC 3000

Dear Tony

Draft Annual Benchmarking Report 2017

Powerlink Queensland (Powerlink) provides this submission to the Australian Energy Regulator (AER) in response to the AER's Draft Annual Benchmarking Report (Draft Report) for 2017.

In its Draft Report, the AER identifies that it has undertaken a review of transmission benchmarking over 2017 with the assistance of its consultants, Economic Insights. Having considered submissions to the Economic Insights Position Paper, the AER has decided to adopt the revised transmission model specifications, namely:

- substitution of jurisdictional end-user numbers for the current voltage-weighted connections output;
- to apply a cap of 5.5% of gross revenue on the output share of energy not served. The cap is achieved by changes in the price of energy not served rather than its quantity (for which not previous cap was imposed); and
- to update the weights for outputs unrelated to reliability, derived from a Leontief cost function model applied to data for the 2006-2015 period.

As identified in its previous submission¹ to the AER's TNSP Benchmarking Review, Powerlink does not consider that end-user numbers provide an appropriate measure of transmission output and, consequently, does not support its adoption for benchmarking purposes. Powerlink also considers that a cap to reduce the influence of unserved energy on the benchmarking results would be a reasonable addition to the framework. Powerlink has not reproduced its reasons for these positions here.

Key Outcomes

The results and high-level analysis in the Draft Report reflects the original and updated output specifications. Powerlink considers that the presentation of both sets of specifications may be useful to stakeholders to help them understand what difference the change in specification actually makes to the productivity results.

Powerlink notes that the following key outcomes under the new model specification in the AER's Draft Report:

33 Harold Street ,Virginia
PO Box 1193, Virginia, Queensland 4014, Australia
Telephone: (07) 3860 2111 Facsimile: (07) 3860 2100
Website: www.powerlink.com.au

- *Industry Total Factor Productivity (TFP)* – the decline in TFP is greater under the new specification, with the average annual TFP growth rate calculated as -2.1 per cent, compared to -1.8 per cent under the old specification. In terms of inputs, transformers appear to have had the greatest influence over the past 11 years, increasing by 45% between 2006 and 2016.
- *Multilateral TFP (MTFP)* – in 2015/16, Powerlink was on only TNSP to experience an increase in productivity, albeit modest at 2%.
- *Relative Performance of TNSPs in 2015/16* – the AER has cautioned against a comparison of productivity levels between TNSPs due to a number of limitations, including that its models cannot directly incorporate all relevant operating environment factors.

In its Draft Report, the AER has included an additional section (3.2), which is intended to describe the key drivers of changes in TNSP productivity. Overall, Powerlink considers that objective information to assist stakeholders to understand how the analysis has been conducted and how the results could meaningfully be interpreted would be useful. Further, for future updates of the input or output shares, it may be more practical to limit this to the most recent 10 years of historical data.

Powerlink would also suggest that the AER make the following minor amendment in developing its Final Report. That is, to maintain a consistent colour for each TNSP in the figures. For example, Figure C3 appears to be at odds to other figures in this regard.

If you have any questions in relation to this submission, please contact me.

Yours sincerely



Jennifer Harris
General Manager, Network Regulation

¹ Powerlink Submission to AER Review of Economic Benchmarking of TNSPs, Position Paper, 30 August 2017.