26 October 2022

Ms C Preston
Australian Energy Regulator
Level 38, 360 Elizabeth Street
MELBOURNE 3000 VIC

Email: [redacted]

Dear Ms Preston

Draft 2022 Benchmarking Report for Electricity Distribution Network Service Providers

SA Power Networks welcomes the opportunity to comment on the Australian Energy Regulator's (AER) draft 2022 Economic Benchmarking Report for electricity distribution network service providers (DNSPs), as emailed to DNSPs on 12 October 2022.

SA Power Networks remains concerned with the slow progress by the AER in advancing benchmarking development work, as detailed in its 2020 and 2021 Economic Benchmarking Reports. We continue to urge the AER to commit to firm timelines for this development work, noting a number of these matters are likely to have significant impacts on benchmarking performance outcomes across the industry.

This is evident in the AER's draft benchmarking report, which states "Further, while Powercor, SA Power Networks and CitiPower have consistently been the most productive DNSPs in the NEM as measured by MTFP, they have experienced a gradual overall decline in productivity for most of the period since 2006."[1] While the report broadly acknowledges increases in opex associated with new regulatory obligations, the report does not discuss the impact of distributed energy resources (DER) on comparative performance.

Through the enablement of DER, distribution businesses are enabling new value release to customers. We consider it essential that this be incorporated as an additional benchmarking output, whereas, perversely, in high DER penetration networks, DER gives the appearance of reduced productivity. This occurs since it both reduces energy throughput and acts against increasing the ratcheted maximum demand output. Further, managing these resources increases MTFP capital and operating inputs, particularly network operating costs, resulting in further deterioration in a DNSP's comparative MTFP benchmarking performance.

Aside from giving priority to addressing this issue in future benchmarking, SA Power Networks considers that the benchmarking report should make explicit mention of this impact on benchmarking performance.

Our remaining comments focus on the future benchmarking development work proposed by the AER.

[1] AER, Draft Annual Benchmarking Report, Electricity distribution network service providers, November 2022, Executive Summary, page v.

Ongoing incremental improvement

SA Power Networks is supportive of the ongoing review and incremental improvement of datasets and methodologies that support the annual benchmark reporting, in particular, consideration of the exclusion of Guaranteed Service Level (GSL) payments from operating costs used for benchmarking purposes.

The AER is also seeking to improve the way data is collected for DNSP-specific MVA capacity data for lines and cables. We are receptive to exploring opportunities to improve consistency and reduce the data burden on DNSPs to collect this data. We would recommend this be considered as part of the broader Network Information Requirements (RIN data) review that is currently underway.

SA Power Networks also encourages the AER to undertake further additional consultation with DNSPs on the Quantonomics memorandum that investigates possible options for addressing the ongoing monotonicity issues with the opex econometric cost function models. SA Power Networks has had limited opportunity to review the memorandum at this stage.

Differences in cost allocation and capitalisation approaches

SA Power Networks acknowledges the AER's recent analysis into the differences in capitalisation approaches that may impact on benchmarking results and look forward to receiving the AER's draft guidance note on capitalisation differences later this month.

DNSPs' capitalisation policies vary across the NEM, particularly in relation to the allocation of overheads. As per our February 2022 submission to the AER's Impact of Capitalisation Differences on Benchmarking consultation paper, we are supportive of adopting a consistent corporate overhead allocation rate across DNSPs, which would reduce some of the non-efficiency related variability in benchmarking outcomes. If SA Power Networks capitalised 30% of its corporate costs (the estimated average across all DNSPs), our reported opex would reduce by around $21 million per annum (~9%). Our resulting Opex MPFP would increase between 8% and 10%.

Noting the AER's use of benchmarking in assessing the efficiency of a DNSP's opex, it is important to consider the DNSP's capitalisation policies and how this may be affecting its perceived relative efficiency as measured by benchmarking.

Review of benchmarking modelling to account for distributed energy resources

We welcome the AER's continued consultation on potential changes to the benchmarking methodology to account for DER, as required under the recent Access, Pricing and Incentive Arrangements for DER rule change.

SA Power Networks is at the forefront of the customer-led distributed energy transition requiring significant innovation and investment to support customer demand for 'export services'. We expect further expenditure will be necessary to ensure sufficient network capacity is available to meet continued strong demand for these services.

As mentioned earlier in this letter, and detailed in our September submission to the AER's Incentivising and Measuring Export Service Performance consultation paper, the current benchmarking regime perversely disadvantages distribution businesses with high DER take-up. High DER penetration both reduces energy throughput and increases costs, indicating deteriorating benchmark performance, when the converse is true – additional customer value is being delivered.

We support the need for a holistic review on the approach to, and models used for, benchmarking, in light of the increasing impacts of DER take-up on benchmarking performance. We do not consider Operating Environment Factors (OEFs) will adequately address the problem in isolation, noting that the current benchmarking approach has not been adapted for export services.

Review of non-reliability output weights

We note the AER, in its 2021 benchmarking report, proposed to undertake an independent review of the non-reliability output weights used in the Total Factor Productivity / Multilateral Total Factor Productivity benchmarking to ensure that the benchmarking framework delivers consistent outcomes that are in the long-term interests of customers. Due to competing priorities, this review has not occurred. We note this remains a priority for the AER, however no timeframe for completion of this review has been provided.

We support a detailed review of the appropriateness of the current benchmarking methodologies. This review should also consider interdependencies with other benchmarking reviews, including DER and capitalisation practices.

Please contact Debbie Voltz on [redacted] if you require any further discussion or clarification of the above.

Yours sincerely

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