

10 February 2023

Arek Gulbenkoglu
General Manager Network Expenditure
Australian Energy Regulator GPO Box 520
Melbourne VIC 3001

Dear Mr Gulbenkoglu

Re: Draft guidance note on the impact of capitalisation differences on benchmarking

TasNetworks appreciates the Australian Energy Regulator's (AER) ongoing engagement with distribution network service providers (DNSPs) as it seeks to address the impact of differences in DNSPs' capitalisation practices on the economic benchmarking of network businesses.

TasNetworks supports the proposed allocation of a fixed proportion of corporate overheads to DNSPs' operating expenditure (**opex**) for benchmarking purposes, as a means of addressing the impact that differences in capitalisation practices have on the AER's current benchmarking. TasNetworks is of the opinion that, while this method may be imperfect, it will adequately account for material differences in capitalisation practices.

We also agree that the proportion of corporate overheads allocated to DNSPs' opex for benchmarking purposes should be consistent across DNSPs, and that the AER's preferred approach of allocating 100 per cent of corporate overheads (both expensed and capitalised) to benchmarked opex is likely to produce more meaningful assessments of networks' efficiency.

To ensure that comparisons of DNSP efficiency reflect contemporary practices, TasNetworks also supports the use of 2022 Cost Allocation Methodologies (**CAM**) as the basis for benchmarking opex series in the future. We are of the view that the potential difficulties of regularly having to re-cast opex time series under a 'CAM-of-the-day' approach outweigh any added precision that such an approach might offer.

However, continuing the frozen CAM approach, albeit based on the CAMs applying in 2022, may lead to the same comparability issues and inconsistencies re-emerging in the future, when DNSPs have changed their CAMs as a result of evolving business practices or accounting standards. To alleviate this, TasNetworks proposes that a five-yearly review could be put in place to ensure that the CAMs used to prepare the opex time series used for economic benchmarking are reflective of DNSPs' contemporary practices.

With data on overheads only available from 2009, rather than 2006 – which is currently the first year of the AER’s benchmarking series – the AER has proposed a number of options in relation to when and how to commence the opex series for benchmarking in the future. One of those options is to have DNSPs provide actual overheads data for the three years prior to 2009 (2006–2008), in order to preserve the current ‘long’ benchmarking period.

TasNetworks is of the view that a benchmarking time series looking back to 2009 is sufficient for the purposes that benchmarking serves. While it may be argued that a longer time series provides a greater level of understanding of historical performance, TasNetworks does not believe that it is necessary to attempt to recover or estimate data for corporate overheads prior to 2009. The cost to provide actual or estimated corporate overhead information for 2006-2008 would outweigh any benefits extending the time series would provide to the assessment of recent efficiency.

In the context of efficiency assessments, TasNetworks is aligned with the AER’s view that capitalised overheads should be included in base year opex when comparing to modelled efficient opex.

Thank you for the opportunity to provide feedback on the draft guidance note on the impact of capitalisation differences on benchmarking. If you have any questions on the feedback provided in this submission, please contact [REDACTED]

Yours sincerely

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Chantal Hopwood

Head of Regulation