

30 August 2017

Mr Evan Lutton
Assistant Director – Networks Branch
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Mr Lutton

Re: TasNetworks' response to the Australian Energy Regulator's (AER) Review of Economic Benchmarking of Transmission Network Service Providers – Position Paper

Thank you for the opportunity to respond to the AER's Transmission Network Service Providers (TNSP) benchmarking issues paper titled 'Review of Economic Benchmarking of Transmission Network Service Providers – Position Paper'.

TasNetworks is supportive of the use of benchmarking as a basic measure of productivity and efficiency. We recognise the value benchmarking delivers by providing interested stakeholders the opportunity to compare the performance of each TNSP relative to each other and, perhaps more importantly, relative to their own performance over time.

We support the AER's continued effort to ensure TNSP benchmarking is contemporary by conducting periodic reviews, such as this one. However, TasNetworks cautions against using TNSP benchmarking deterministically as the ability to draw meaningful conclusions about the relative efficiency of transmission networks in Australia is restricted by the small number of networks and the diversity between the networks. Given the diversity in TNSPs we are concur with the Energy Networks Association's (ENA) recommendation that the AER should obtain an independent expert peer review of the benchmarking methodology, models and data choices proposed ahead of any implementation.

In our submission in response to the AER's Issues Paper, TasNetworks argued against substituting voltage-weighted connections with jurisdictional end-user numbers as an output for TNSP benchmarking. The number of end-users is important when considering the outputs of a distribution network, however, does not provide a meaningful measure for the efficient costs incurred by a transmission network provider and bears no relation to the costs involved in servicing a transmission connection point. TNSPs incur no additional costs as a result of a new customer connecting to the distribution network. Rather, the efficient costs incurred by a transmission network service provider are largely a product of maximum demand placed on the network itself.

There is a strong correlation between end-user customer numbers and energy throughput. The inclusion of end-use customers in the benchmarking model effectively adds weight to

the impact of the energy throughput as an output that Economic Insights themselves have previously suggested is questionable as a driver of cost for TNSPs¹:

However, it is less clear that it is important with regard to the first criterion of the TNSP meeting or managing expected demand as this is more influenced by peak demand rather than throughput. And, while energy throughput is significant to some TNSPs in terms of revenue, it is unlikely to be directly significant in terms of costs.

Despite the case for including energy throughput as an output in the current context being arguable, we believe it should be included in initial output specifications although it would be expected to receive a relatively low weight.

With end-use customer numbers replacing the connections variable, the combined weight for energy throughput and customer connections is 43 per cent. We think this will likely favour TNSPs that have a more concentrated generation base and consumption load, which in effect is arguably not a useful benchmarking metric for all TNSPs.

We recognise that benchmarking complex and diverse businesses is a difficult and complicated task. In a Tasmanian context, TasNetworks serves a geographically dispersed population and operates a network that is obliged to connect a large number of small hydro generators and large industrial customers connected directly to the transmission network. TasNetworks welcomes the AER's stated position of the requirement for further analysis regarding the unique operating environment factors (OEFs) facing individual TNSPs. We encourage the AER to progress the development of OEFs for consideration alongside future benchmarking results. We also note the ENA submission on behalf of all TNSPs is supportive of the development of OEFs for TNSPs.

We welcome the AER's continued efforts to improve TNSP benchmarking and look forward to future opportunities to work collaboratively with the AER and the other TNSPs to ensure the continued relevance and utility of benchmarking. If you wish to discuss any aspect of this submission, please contact Chantal Hopwood, Team Leader Revenue and Price Regulation chantal.hopwood@tasnetworks.com.au on 0400 827 037.

Yours sincerely



Kirstan Wilding
Leader Regulation

¹ Economic Insights, 2013, p.35,
<https://www.aer.gov.au/system/files/Economic%20Insights%20report%20-%20Economic%20benchmarking%20of%20electricity%20network%20service%20providers%20-%202025%20June%202013.PDF>

