

7 October 2016

Chris Pattas  
Australian Energy Regulator  
GPO Box 520  
Melbourne Victoria 3001

Attention: Andrew Ley

Dear Chris

**RE Draft 2016 Annual Benchmarking Report for distribution network service providers**

Thank you for the opportunity to provide comment on the draft Annual Benchmarking Report for distribution network service providers (**DNSPs**) in 2016. TasNetworks recognises that the benchmarking reports provide interested stakeholders with the opportunity to compare the performance of each DNSP relative to each other and, perhaps more importantly, relative to their own performance over time.

Whilst broadly supportive of the AER's benchmarking program, TasNetworks welcomes the AER's concession<sup>1</sup> that benchmarking models are imperfect and supports the AER's cautious approach towards using benchmarking results deterministically.

In response to the draft 2015 Annual Benchmarking Report for distribution, TasNetworks raised concerns about the methodology used to generate the Multilateral Total Factor Productivity (**MTFP**) measure, the Partial Factor Productivity measure for capital expenditure (**Capex PFP**) and the Partial Factor Productivity measure for operating expenditure (**Opex PFP**). Each of these issues remain valid for the most recently benchmarked period.

TasNetworks' performance in the MTFP Capex PFP and Opex PFP measures have improved during the current reporting period. However, the improvement is not due to any change in regard to either of the issues discussed below nor any change to the way these issues are treated by the AER's benchmarking. As such, TasNetworks position remains that the AER should consider the following issues before publishing a final draft of the Distribution Benchmarking Report for 2016.

---

<sup>1</sup> Distribution network service providers – Benchmarking report 2015, page 9

## Overhead Lines

One of the concerns TasNetworks raised in response to the 2015 Draft Annual Benchmarking Report was the sensitivity of the MTFP score to the voltage of overhead lines. We argued that a change to the MTFP methodology that distinguished between lines more than and less than 33kV inadvertently created a bias that materially disadvantaged TasNetworks and lowered our MTFP score.

In response to TasNetworks' submission the AER made the following statement in the final 2015 Annual Benchmarking Report:

*TasNetworks, however, could be considered an outlier compared to its peers in terms of system structure, which influences its MTFP score to some extent. Compared to other DNSPs, TasNetworks operates substantially less high voltage sub transmission assets and has a comparatively high proportion of lower voltage lines. Therefore, Economic Insights advises that some caution is required in interpreting TasNetworks' MTFP score, given its comparatively unusual system structure. The Economic Insights memorandum referred to in Appendix A contains further detail on TasNetworks' system structure.*

The fact that TasNetworks operates its network almost exclusively with lines of less than 33kV is a legacy issue over which we have little control and is largely a product of historically lower load density than is the case elsewhere in the country. It is noted that the 2016 draft Annual Benchmarking Report does not include the difference in voltage of overhead lines as an operating environment factor (**OEF**). Therefore, in the absence of such an adjustment, TasNetworks believes the comparatively high proportion of lower voltage lines should be noted in the report in a similar fashion to that adopted by the AER in 2015.

## Transformer Capacity

The second issue raised by TasNetworks in response to the 2015 draft distribution benchmarking report was in regard to transformer capacity. TasNetworks continues to hold the view that the AER's current benchmarking methodology negatively affects our benchmarking performance as a result of the need to serve a geographically disperse customer base. As the only Tasmanian DNSP, TasNetworks has an obligation to provide network services to all Tasmanian distribution customers that require it. In order to do so, we must install transformers that, in some cases, serve as few as one customer. TasNetworks believes the fact that we require more transformer capacity to produce outputs than many of the businesses we are benchmarked against is a product of the environment in which we operate rather than a product of any inefficiency.

TasNetworks continues to be of the view that it is appropriate for the AER to adjust the data for all rural DNSPs to negate the impact that excess transformer capacity has on their MTFP and Capex PFP benchmark scores.

Thank you for the opportunity to comment on the draft 2016 Annual Benchmarking Report for DNSPs. Please feel free to discuss the views expressed in this submission with Kirstan Wilding, Leader Regulation, on (03) 6271 6696 or by email at [kirstan.wilding@tasnetworks.com.au](mailto:kirstan.wilding@tasnetworks.com.au).

Yours sincerely



Ben Wagner  
Acting General Manager Strategy & Stakeholder Relations