

24 May 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) draft decision and submissions received by interested parties

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 – Issues 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. 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 as well as the diversity of their operating environments.

We support the AER's continued effort to ensure TNSP benchmarking is contemporary by conducting periodic reviews, such as this one. However, any changes in methodology should be considered with caution, as there is risk that change will remove the ability for benchmarking to provide a meaningful measure over time. Where amendments will lead to step changes in outcomes then this risk is increased. Any perceived benefit which may be derived from a methodology change needs to be considered against the value of providing consistent and comparable benchmarking over time. Furthermore, it is important that any changes to the benchmarking model are sufficiently tested and consulted on with all relevant stakeholders.

We recognise that benchmarking such complex and diverse businesses is a difficult and complicated task. In a Tasmanian context, TasNetworks operates a network that is obliged to connect a large number of small hydro generators and provide energy to a geographically dispersed population. It is important to consider the unique and uncontrollable



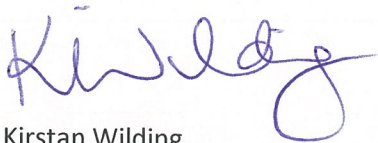
characteristics of different networks when designing benchmarking and not implement changes that disadvantage those characteristics that have been recognised previously.

Our submission focusses on the issues pertinent within a Tasmanian context. The key points addressed include:

- Connection points output versus end-user numbers
- Reliability output weighting

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

Attachment 1: TasNetworks' response to the AER's Issues Paper for Review of TNSP Benchmarking

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1. Introduction

Since 2014, the Australian Energy Regulator (AER) has used benchmarking to measure the relative productivity of transmission businesses and track productivity changes over time. Each year, the AER publishes an economic benchmarking report that presents a range of partial performance indicators as well as Multilateral Total Factor Productivity (MTFP) and Multilateral Partial Factor Productivity (MPFP) for each of the five Transmission Network Service Providers (TNSP) in the National Electricity Market. The AER's benchmarking seeks to measure overall productivity by identifying the outputs produced as a ratio of inputs.

Benchmarking outcomes are not currently used to determine TNSP efficiency adjustments. However, the AER does use benchmarking when determining TNSP opex forecasts.

In April 2017, the AER published 'Review of Economic Benchmarking of Transmission Network Service Providers – Issues Paper'. The paper sought to deal with economic benchmarking output measures which are one of the three TNSP benchmarking limitations identified by the AER.

2. Key issues to be discussed in this submission

Our submission focusses on the issues pertinent within a Tasmanian context. The key points addressed include:

- Connection points output versus end-user numbers
- Reliability output weighting

3. Connection points output versus end-user numbers

In the Review of Economic Benchmarking of Transmission Network Service Providers – Issues Paper, the AER suggested the use of voltage-weighted entry and exit connections as an output measure. This is a measure that has been consistently raised by TNSPs. The AER is seeking feedback on alternative methods of measuring output and has sought feedback on whether measuring output by total number of downstream customers would be better than the current method using voltage weighted connection points.

TNSPs have limited capacity to influence benchmarking results as each network is largely already built according to the characteristics of the population it serves. A significant change to the way outputs is measured will likely create winners and losers without providing TNSPs the ability to influence their result. In a Tasmanian context, TasNetworks operates a network that is obliged to connect a large number of small hydro generators and provide energy to a geographically dispersed population.

TNSPs have no control over downstream customer numbers. Although downstream customers are the ultimate beneficiary of transmission services, downstream customer numbers are not always a key driver in the amount of inputs required by TNSPs to produce their outputs. Downstream customer numbers will advantage networks servicing large high density populations where economies of scale from size can be gained based on population

characteristics rather than network performance. Measuring output by the number of downstream customers also does not consider the inputs required by a TNSP to facilitate interconnectors and entry connection points.

Such a change to the way output is measured has the potential to significantly shift productivity scores from current outputs. Significant step changes are not consistent with the underlying purpose of benchmarking to provide a comparative measurement over time and lack of consistency does not promote the use of benchmarking to inform business decisions and help identify and deliver efficiency improvements.

A significant step change would result in a loss of relevance for all historical information previously collected and used to benchmark TNSP businesses.

4. Reliability output weighting

TasNetworks supports the view raised by AusNet Services that the current MTFP model is highly sensitive to individual transmission outages which have the potential to 'swamp' other productivity outcomes. Capping the impact of reliability outages would ensure that individual TNSP and industry productivity gains are not distorted by large one-off reliability events.

TasNetworks does not support the use of a rolling average to limit the impact of large one-off reliability events. While it would help mitigate volatility in the year that the event occurs, a rolling average would also extend the impact of such events on productivity. In our view a cap is a more appropriate way to deal with low probability, high consequence events.

If a cap is to be applied it is important that it is clear and easy to measure ensuring transparency and replicability. TasNetworks believes a cap on unserved energy best meets these objectives. Any cap introduced does not necessarily need to link to the unplanned outage calculation definition in the Service Target Performance Incentive Scheme (STPIS) as it may introduce unnecessary complexities.