

21 August 2014

Mr Mark McLeish
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Dear Mr McLeish

RE Draft Annual benchmarking reports

Thank you for the opportunity to comment on the draft annual benchmarking reports for transmission and distribution and the accompanying memos from Economic Insights. I note that it is a requirement of the National Electricity Rules for the Australian Economic Regulator (AER) to undertake benchmarking of network service providers (NSPs) with a view to providing stakeholders, including consumers, with information about the relative performance of regulated networks. TasNetworks is supportive of this objective and the use of benchmarking as a basic measure of productivity. The annual benchmarking reports will provide useful comparison tools for a range of stakeholders, including the electricity supply industry.

TasNetworks notes that this is the first comprehensive benchmarking study undertaken by the AER. We recognise that the complexity of the task and the inevitable issues regarding data quality and consistency mean that the conclusions that can be drawn from comparisons between the businesses are, at this time, likely to be more indicative than definitive. Nonetheless, TasNetworks hopes that the collaborative approach that was adopted by the AER in its Better Regulation program will continue and looks forward to working with the AER to ensure that, over time, the benchmarking of NSPs becomes as robust as possible.

Any form of benchmarking has limitations, in terms of its ability to provide insights into the operations of a network business, and therefore should not be solely relied upon to measure efficiency as part of the revenue determination process. The draft reports recognise this, in the acknowledgement that (qualitative) environmental factors need to be considered when interpreting quantitative analysis of business efficiency. The reports also acknowledge the need to benchmark like-for-like service provision where possible.



TasNetworks, however, is of the view that even restricting benchmarking to the core components of businesses does not address many of the environmental factors which have a material impact on relative network business efficiency. Further, benchmarking may not fully consider where NSPs are in terms of their investment cycle.

TasNetworks provides specific comments on each report below.

Electricity transmission

TasNetworks has worked with other members of Grid Australia to consider the draft report and the issues outlined in the Economic Insights memorandum, and Grid Australia has provided a separate submission in this regard. TasNetworks does not have any further comments. We consider that the AER's draft report provides a useful contribution to TNSP benchmarking, while also recognising the inherent limitations of the approaches adopted.

We note that the AER's report includes two references to 'Transend' on pages 12 and 13, which should be amended to 'TasNetworks' for consistency.

Electricity distribution

In response to the question as to whether any of the other multilateral total factor productivity (MTFP) specifications tested by Economic Insights would be more reflective of the inputs and outputs of NSPs, TasNetworks does not have any specific comments on the issues raised in the Economic Insights memo. In relation to the Valuation of Customer Reliability (VCR) used in weighting the reliability output in the MTFP model, TasNetworks considers that the VCR used for benchmarking purposes should be consistent with the VCR which is utilised by the AER in other applications, such as the Service Target Performance Incentive Scheme for DNSPs.

Once again, thank you for the opportunity to comment on the draft annual benchmarking reports. If you wish to discuss any aspect of the views expressed in this letter, please contact Chantal Hopwood, Acting Regulation Leader, at chantal.hopwood@tasnetworks.com.au or on 0400 827 037.

Yours sincerely



Bess Clark

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