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Dear Mark,

### **Draft Annual Benchmarking Report for Electricity Transmission Network Service Providers**

TransGrid appreciates the opportunity to provide comment on the draft annual benchmarking report for electricity transmission network service providers. TransGrid has participated in a number of benchmarking exercises with other transmission businesses in Australia and overseas over many years, and is well aware of the benefits and limitations of this work.

TransGrid supports the comments on the draft report provided by Grid Australia, including the expert advice provided by HoustonKemp. This submission provides additional comments on matters TransGrid considers relevant.

#### *Partial Performance Indicators*

TransGrid supports the AER's inclusion of comments accompanying the partial performance indicators that indicate the impact of environmental and scale factors on the indicators. TransGrid also notes that indicators may be affected by factors such as corporate structure. For example, overheads for a business running multiple energy networks may be shared across those networks where they cannot for a business running a single energy network.

TransGrid also has some concerns with the data used in the indicator of cost per kilo volts (kV) of entry and exit points. TransGrid understands that the AER has used a count of transmission node identifiers (TNI) to represent the number of entry and exit points. TransGrid notes that there may be a wide variation in the capital stock related to each TNI depending on the number and configuration of connections the TNI supplies. In particular:

- The number of connections supplied by a TNI may vary significantly. For example, some TNIs may supply only one connection, where others may supply five or more connections. In this case, all other things equal, some TNIs may relate to significantly more capital stock than others.
- The configuration of connections may vary significantly:
  - At some substations the TNSP owns the higher voltage switchbays only (DNSP or direct customer owns transformers and lower voltage switchbays)
  - At other substations the TNSP owns the higher voltage switchbays and the transformers (DNSP owns lower voltage switchbays)

- At other substations the TNSP owns the higher voltage switchbays, the transformers and the lower voltage switchbays (DNSP owns from the connections leaving the lower voltage switchbays)

TransGrid understands that there may be some differences in the voltages to which TNIs have been referenced (for example, whether referenced to the higher or lower voltages of a transformer).

TransGrid further considers that the number of physical connections would better reflect the number of entry and exit points to the networks.

#### *Multilateral Total Factor Productivity (MTFP)*

TransGrid notes that Economic Insights has considered four potential output specifications for a MTFP model. TransGrid considers that the rationale for the four output specifications selected for consideration, and the one selected as the preferred specification, is unclear. In particular, Economic Insights has not demonstrated that there may not be further alternative specifications that should be considered, and has not provided a convincing rationale for the one it has selected as the preferred specification. In the limited time available to comment, TransGrid has not had the opportunity to explore potential alternative specifications further.

With regard to output variables, TransGrid considers that energy throughput is not a cost driver for TNSPs. Therefore, its inclusion in an output specification reduces the relevance of the MTFP outputs to a TNSP's efficiency. Further, TransGrid considers that all of the same issues the weighted entry and exit connections in the partial performance indicator also apply to the approach taken for MTFP.

Economic Insights has stated without evidence that its preferred specification "did not appear to favour any particular type of TNSP". TransGrid notes that the MTFP presented based on this specification shows similar results for the two smaller TNSPs – TasNetworks and ElectraNet, and similar results for the three larger TNSPs – Powerlink, TransGrid and AusNet Services. This observation may indicate that the model in fact favours smaller TNSPs, and considers that further evidence would be necessary to support Economic Insights' assertion that the specification did not favour any particular type of TNSP (if, in fact, this is the case).

Further, the AER and Economic Insights have not clearly articulated those environmental factors that have been applied in the MTFP model and the rationale for their selection as material environmental factors. Nor have they specified those factors that have not been applied in the MTFP model and their rationale for rejection as material environmental factors. It is unclear how those environmental factors that have been selected have been applied in the model.

TransGrid is unable to comment on the weighting of the value of customer reliability (VCR) proposed by Economic Insights, other than that it appears to be somewhat arbitrary and subjective. TransGrid would seek some justification from Economic Insights as to its proposed weighting or, at the very least, some sensitivity checks of its impact on the model outputs to determine the materiality of the weighting.

TransGrid considers that the MTFP presented in the draft benchmarking report is, at best, experimental and should not be included in the report.

### *General Comments*

On page 13, under the heading "Other outputs", the explanation of the non-inclusion of other outputs in the report implies that they are not core services nor significant enough for inclusion in whole of business benchmarking. In fact, the other outputs listed are critical to the achievement of the national electricity objective, and are both core and significant for TNSPs. TransGrid considers that the rationale for their non-inclusion in the report is better expressed as the significant difficulty in measuring these outputs.

TransGrid had understood that the AER would seek similar information from AEMO as from other TNSPs in order to provide the complete picture on transmission costs in Victoria and to promote transparency. TransGrid requests the AER to explain why AEMO has not been required to provide similar information to the other TNSPs.

TransGrid has noted two factual corrections to the report:

- Throughout the report, the name "TransGrid" is shown with a lower case "g". TransGrid requests that this be corrected to an upper case "G".
- In Table 1 on page 12, the Transformer Capacity for TransGrid has not been updated to the recently revised values.

### *Summary*

The AER's draft report is an important step in developing a more useful role for performance benchmarking in the regulation of transmission network service providers. It is particularly relevant to meeting the Rules requirements for an annual benchmarking report.

Furthermore, there are limitations inherent in this approach, many of which have been correctly acknowledged in the draft report. However, it would enhance the integrity of the final report if these acknowledged limitations are expressly cited as reasons for high levels of caution in applying the findings to revenue setting decisions.

TransGrid would appreciate the opportunity to discuss these comments further with AER staff as the development of the report continues. If you would like to discuss any aspect of these comments further, please contact Andrew Kingsmill on (02) 9284-3149.

Yours sincerely,



**Tony Meehan**  
**Executive General Manager/Revenue Strategy & Business Diversification**

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