9/10/2015

Ms Michelle Groves
Chief Executive Officer
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Submitted via: aerinquiry@aer.gov.au

Dear Ms Groves

Annual Benchmarking Report for Electricity Transmission Network Service Providers

TransGrid appreciates the opportunity to respond to a draft of the AER's annual benchmarking report for 2015. TransGrid understands that the aim of this report is to describe, in relatively plain language, the relative efficiency of the electricity transmission network service providers (TNSPs) that the AER regulates under the National Electricity Rules.

TransGrid offers the following comments for the AER's consideration in finalising its report.

General comments

TransGrid supports the use of benchmarking as an investigative tool which may be able to highlight areas for further exploration and assessment. However, as identified by the AER in this report, the ability to draw conclusions about relative efficiency from benchmarking transmission networks in Australia is limited. Given this view, it is important that the report, and any further use of the outputs of the report, recognise this.

TransGrid acknowledges that the AER is required to publish annual benchmarking reports in accordance with the National Electricity Rules. The contents of the report and the extent of data collected via Regulatory Information Notices (RIN) are determined by the AER.

TransGrid would like to highlight that TNSPs have, and will, incur costs each year to provide the extensive and detailed data to the AER for purposes of benchmarking in accordance with RINs. Given the costs involved for both the AER and TNSPs, it would be expected that the AER applies a transparent and robust approach to benchmarking that provides meaningful results and informative commentary of those results in each annual report.

One of the critical success factors for benchmarking is the need for consistency of all the data sets. For example, the definition of connection point in the RIN has evolved over the last two data collection cycles and it is quite different to the definition in the National Electricity Rules. We understand at least one TNSP has expressed its concerns to the AER regarding consistency of this key data point.

TransGrid seeks more proactive engagement with the AER to discuss improvement opportunities and to confirm data consistency which would add significant value to the data collection and benchmarking processes.

Planning and reporting

The AER's benchmarking process could be more effective if it was aligned to a 'plan – do – check – act' annual cycle. In this regard, a plan which is transparently developed in consultation with relevant stakeholders could be implemented, and the achievements against that plan were reported in the annual benchmarking report. TransGrid would be pleased to work with the AER on this plan.

Partial performance indicators

TransGrid supports the inclusion of commentary in this draft report which highlights the impact of scale and environmental factors. We agree with the AER's comment in the draft report that when these indicators are used in isolation, their results should be interpreted with caution.

Multilateral total factor productivity (MTFP)

TransGrid notes that the AER engaged Economic Insights to consider input and output specifications for a MTFP model. An MTFP index is a ratio of business outputs to inputs over time. Therefore the selection of inputs and outputs included in the specification is an important factor as different choices will lead to different results. It is difficult for stakeholders to understand the choices made by Economic Insights as its memo does not provide details of its approach. TransGrid would welcome further explanation by the AER and Economic Insights on the relevant factors which have been applied in the MTFP model and the rationale for their selection.

Availability of transparent models

TransGrid considers that access to the models used by the AER would assist TNSPs, and other interested stakeholders, in better understanding the outputs from such models. TransGrid considers an efficient outcome would be achieved by the models being written in an open source language and not proprietary software, and the models published on the AER's website concurrently with the verified RIN data sets.

Specific comments

> The commentary which accompanies Figure 11 on page 19 appears to incorrectly refer to TasNetworks instead of TransGrid in regards to results for the total cost per MVA of transmission capacity.
> The last paragraph of section 2.3 refers to the relative efficiency of distributors. It would be more beneficial for the report to provide commentary as it relates to transmission networks.
> It would assist readability if the Economic Insights memo had consistent legends and colour choices for all graphs within the memo and that those legends and colours reflected those used in the AER's report.

Conclusion

The limitations inherent in the current approach to benchmarking of TNSPs have been acknowledged in the AER's draft report. The integrity of this report could be improved if these

limitations were explicitly cited as reasons for a high level of caution to be used in using these results, in isolation, to compare the relative efficiency of these TNSPs.

TransGrid would appreciate the opportunity to discuss these comments and the AER's benchmarking approach more generally. If you would like to discuss any aspect of this submission, please contact Garrie Chubb on (02) 9620 0407.

Yours faithfully

Gerard Reiter
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