

Sebastian Roberts
General Manager, Network Expenditure
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Sebastian

Draft Transmission Annual Benchmarking Report

TransGrid appreciates the opportunity to respond to a draft of the AER's annual benchmarking report for 2016. We note that the report is very similar to the Benchmarking 2015 report and that no material improvements have been commenced in the last year.

We reiterate our previous advice that TransGrid supports the use of benchmarking as an investigative tool which may be able to highlight areas for more intensive investigation and review by the regulator. However, its use should may need to be quite measured given the know limitations of the existing model specification.

Limitation of Approach

There are limitations inherent in the current approach to benchmarking of TNSPs as has been clearly articulated to the AER in advice provided Economic Insights, including their memorandum of 14 July 2016. It is important that the AER fully disclose the limitations of their benchmarking approach which include:

- The relative immaturity of benchmarking of TNSPs
- Limited scope to draw a consensus specification
- Issues with the reflection of network size
- An allowance for material environmental factors

We suggest all the limitations identified by Economic Insights be clearly identified in the final report.

Model Specification Issues

To assist TransGrid to better understand the data and model specification, we have engaged Frontier Economics as expert advisors. While this work is still in progress it has identified a range of issues including, but not limited to:

- The AER's preferred model becomes inoperable when the latest data is used; and
- There is a bias against large networks

Our intention is to undertake further work in this area once the AER publishes the final 2016 report, models and data. However, this work highlights that the existing benchmarking requires substantial improvement before stakeholders can have confidence in the results.

Improvement Initiatives

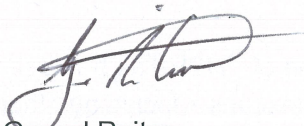
One of the critical success factors for benchmarking is the consistency of all the data sets. The AER advised by letter of 30 October 2015 that it intended to undertake a broader review of the category analysis (CA) and economic (EB) RINs in 2016. At this stage no engagement has been initiated by the AER.

In addition Economic Insights advised the AER on 14 September 2016 of “the need to devote more resources to developing TNSP measures”. We remain committed to working with the AER and all other key stakeholders to further improve data collection, modelling and the application of outputs from benchmarking studies.

We suggest that stakeholders would want some understanding of the improvement initiatives the AER is proposing to sponsor moving forward, and we ask that these be incorporated in your final report.

Should you wish to discuss any aspect of this submission, please contact Garrie Chubb on (02) 9620 0407.

Yours faithfully



Gerard Reiter

Executive General Manager, Asset Management