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Review of Economic Benchmarking of Transmission Network Service Providers – Issues Paper

Energy Networks Australia appreciates the opportunity to make a submission to the Australian Energy Regulator's (AER) Review of Economic Benchmarking of Transmission Network Service Providers – Issues Paper (April 2017).

Energy Networks Australia is the national industry body representing businesses operating Australia's electricity transmission and distribution and gas distribution networks. Member businesses provide energy to virtually every household and business in Australia.

Energy Networks Australia supports robust benchmarking arrangements as a tool to assist the AER determine efficient revenue and price outcomes for customers. However, limitations have arisen in the past when applying benchmarking methodologies to Australian Transmission Network Service Providers (TNSPs) mainly due to the small sample size and the geographical diversity and operating environment factors relevant to these businesses. This has been recognised by the AER in previous reports¹.

Our members are taking proactive steps to assist in improving the quality and comparability of benchmarking data, by harmonising their interpretation of Economic Benchmarking Regulatory Information Notice parameters and measures².

Network businesses are keen to engage and work collaboratively with the AER to capture opportunities to improve the AER's economic benchmarking approach to electricity transmission. This consultation is a positive step and is welcomed. We also consider that the consultation provides an opportunity for the AER to further consider existing

¹ Refer Final Annual Benchmarking Report, Electricity Network Service Providers, 2016, p.13

² These include for the 2015/16 reporting year: (i) movements in provisions (ii) provision of energy delivery to other connected transmission networks (iii) Disaggregated Regulatory Asset Base Values (iv) an alignment in methodology for attributing installed upstream transformer capacities owned by the TNSP to DNSP and direct-connect customer connection point capacities; (v) service parameter 2 LOS events and (vi) Quality of Supply – system losses.

definitions and whether the current suite of parameters still accurately reflect what was originally meant to be measured.

Energy Networks Australia notes that the Issues Paper is primarily focussed on key issues recently raised by a number of transmission businesses. We would support the AER undertaking a wider review that provides the opportunity for collaboration, shared capacity development and the identification of principles and techniques, which may enhance the development and use of benchmarking.

Energy Networks Australia notes that the Issues Paper³ flags the AER's intention to consider material Operating Environment Factors and the impact of differences in capitalisation policies separately to the current review process. Energy Networks Australia welcome this initiative by the AER and our members look forward to participating constructively in that process.

In respect of the benchmarking methodology, Energy Networks Australia notes that adopting alternative model specifications can lead to significant variations in measured Multilateral total factor productivity (MTFP) and relative rankings across the businesses. It is therefore important for any potential changes to the transmission output measures to be given due and proper consideration by the AER and regulated businesses. To ensure changes are appropriate and meaningful, further testing, consultation and development of the model should take place prior to making recommendations or changes.

The limitations of the measures should also be recognised with a view to ensuring they are considered in an informed way and fit-for-purpose. For instance, it is not possible to draw firm conclusions about efficiency from the partial productivity indicator benchmarks due to the exclusion of external operating factors.

Energy Networks Australia understands that our members will be providing their own individual submissions on related issues for the AER to consider.

Should you have any additional queries, please feel free to contact Norman Jip, Energy Network Australia's Senior Program Manager - Transmission on (02) 6272 1521 or njip@energynetworks.com.au.

Yours sincerely



John Bradley
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³ Issues Paper, p.2.