

10 November 2020

Mr Sebastian Roberts  
General Manager | Transmission and Gas  
Australian Energy Regulator

*Sent via email*

Dear Mr Roberts,

### **AER 2020 Draft Annual Benchmarking Reports (Electricity Distribution and Transmission)**

Energy Networks Australia appreciates the opportunity to provide feedback on the Australian Energy Regulator's (AER) 2020 Draft Annual Benchmarking Reports for electricity distribution and transmission network service providers (NSPs).<sup>1</sup>

Energy Networks Australia (ENA) is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

### **Benchmarking framework**

Benchmarking is one of a number of tools used by an economic regulator. ENA highlights the substantial update applied in this year's reports to correct a coding error in Economic Insight's models, which materially impacts the NSPs' benchmarking results and rankings.

Without commenting on the specific correction, we do emphasise the benefits of consistency and stability in benchmarking measures when using it to promote sustained incentives for upfront investments in efficiency improvements. This stability and consistency is also critical given the substantial use made of operating expenditure benchmarking results by the AER in network revenue determinations.

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<sup>1</sup> AER, Annual Benchmarking Report: Electricity distribution network service providers (Draft).  
AER, Annual Benchmarking Report: Electricity transmission network service providers (Draft).

Further consideration should be given to how benchmarking results are applied by the regulator, and a review undertaken to ensure that the benchmarking framework is achieving outcomes that are in the long-term interests of customers.

In addition, ENA reiterates support for Economic Insight's position, and considers that it can be further highlighted by the AER, that it has "*always been cautious about using the TNSP economic benchmarking results to compare productivity levels across TNSPs ...*" and it would "*caution against drawing strong inferences about TNSP efficiency levels from these results.*"<sup>2</sup>

Performance reporting promotes transparency and can lead to enhanced stakeholder participation across the regulatory framework. ENA supports the clear identification of model updates when comparing prior years' results, and notes that there may be benefits to including a caveat on previous reports to ensure stakeholders seeking to draw comparisons over time are not unintentionally misled when reviewing results.

## Benchmarking development

ENA supports the AER continuing to undertake further benchmarking development. In particular, for distribution benchmarking ENA highlights support for the AER:

- progressing its 2019 Benchmarking Report commitment to refine the assessment and quantification of material operating environment factors (OEFs),
- examining and consulting on the implications of cost allocation and capitalisation differences on the benchmarking results, and
- reviewing the benchmarking output specifications as a result of increases in distributed energy resources and demand management activities across the industry.

It is important that the AER's performance benchmarking evolves to accurately capture the valued services delivered by networks across an increasingly two-way grid, including the capacity for customers to connect and realise value from DER investments.

In addition, ENA supports the ongoing development of the transmission benchmarking framework, for example by further developing measures that reflect the changing role of transmission, to improve its usefulness over time.

Continual improvement of the reliability and applicability of the benchmarking results that the AER publishes and uses in network revenue determinations is a priority, and ENA considers that these development opportunities are best addressed in conjunction with NSPs through the formation of an industry benchmarking working group. We would welcome further engagement with the AER on this.

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<sup>2</sup> Economic Insights, Economic Benchmarking Results for the Australian Energy Regulator's 2020 TNSP Annual Benchmarking Report, 15 October 2020, pages 4-5.

Once again, thank you for the opportunity to provide comment. If you have any questions, please contact Lucy Moon, Head of Regulation (at [lmoon@energynetworks.com.au](mailto:lmoon@energynetworks.com.au)).

Yours sincerely,



**Garth Crawford**  
General Manager Economic Regulation