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Subject: Attn: Networks Benchmarking Team [SEC=OFFICIAL]

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From: Mary-Clare Crowley <[redacted]>
Sent: Friday, 21 February 2025 10:49 AM
To: AER Inquiry <aerinquiry@aer.gov.au>
Cc: Christina Gornall [redacted]>
Subject: Attn: Networks Benchmarking Team

Thank you for the opportunity to respond to the **Quantonomics Memorandum on Opex Cost Function Development**, dated November 2024.

Essential Energy appreciate the work being undertaken by the Australian Energy Regulator (AER) and their consultants to incrementally improve the benchmarking methodologies. We also greatly appreciate the time afforded to us by the AER benchmarking team, to take us through what is a very technical topic, explaining the changes proposed, and providing information to allow us to assess potential implications.

As we shared in these sessions, there have been several changes in benchmarking methodologies over recent years which have impacted ranking outcomes – sometimes significantly. As a result, there is possibly less regard for benchmarking results on an annual basis, as it is likely the ranking will be adjusted again in the following year. What is still of critical importance, however, is the impact at the time of a regulatory reset in relation to opex efficiency benchmarking – the outcomes can materially affect a business' revenue allowances.

The proposed methodology, as we understand it, is premised on using an Australian time series to roll forward the efficient opex and thus inform whether a business' base year opex is materially inefficient and needs to be adjusted (down). This is different from the current blended time series which includes data from New Zealand and Ontario. The effect of this change results in the Australian trend of reducing opex being carried forward and lowering the level of efficient opex for benchmarking purposes. The assumption that reductions in opex can continue on, ignores the boundaries of efficiency, and has no regard for the energy transition to meet Climate Change targets, or the effect of increasing natural disaster events, or the labour market dynamics – all of which is resulting in higher opex requirements than in the past.
Furthermore, we are unsure how this would be dealt with in future resets – if opex was deemed efficient and allowances were granted accordingly in prior years, that effectively means that the same opex is no longer efficient and DNSPs will need to spend materially below allowances to avoid a base year cut – this is a harsh outcome, particularly in light of the inherent changes described previously.

Essential Energy suggest that the proposed change is not relevant or useful when the industry is in the process of major change. We therefore recommend that the AER not progress with this proposed 'improvement' to benchmarking.

Kind regards

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