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Networks Benchmarking Team
Australian Energy Regulator
Via email: AERInquiry@aer.gov.au

Dear Networks Benchmarking Team:

Submission on Issues Identified in the AER's 2025 Benchmarking Report

AusNet appreciates the opportunity to provide feedback on the AER's 2025 Benchmarking Report and acknowledges the ongoing efforts to refine benchmarking methodologies. We are making this submission in relation to two issues identified.

Concerns regarding the updated output weighting adopted in the Multilateral Total Factor Productivity (MTFP) analysis.

1. Instability of Output Weighting Estimates

The updated output weights, as presented in the Quantonomics memorandum, show significant changes compared to previous estimates. For example, the weight on ratcheted maximum demand (RMD) increased by over 14 percentage points, while the weight on circuit length decreased by approximately 13 percentage points.

	Energy Throughput	Ratcheted max. demand	Customers numbers	Circuit length	CMOS
New weighting	10.8%	47.8%	15.2%	26.2%	-11.6%
Old weighting	8.6%	33.8%	18.5%	39.1%	-11.6%
Change	2.2%	14.1%	-3.3%	-13.0%	0.0%

Source: Quantonomics, 'DNSP-MTFPtables-charts-20Aug2025'

Similarly, for output weights for AusNet, the weight on ratcheted maximum demand (RMD) increased by over 16 percentage points, while the weight on circuit length decreased by approximately 15 percentage points.

	Energy Throughput	Ratcheted max. demand	Customers numbers	Circuit length	CMOS
New weighting	12.4%	54.9%	17.5%	30.0%	-14.8%
Old weighting	9.7%	38.8%	21.3%	45.0%	-15.0%
Change	2.7%	16.1%	-3.8%	-15.0%	0.2%

Source: Quantonomics, 'DNSP24-MTFPtables-charts-16Sep2024'

These shifts are substantial and raise concerns about the **stability and reliability of the underlying econometric modelling**. We note that the model specification and estimation methods make the estimated output weights highly sensitive to changes in input data, as CEPA also comments '*main potential shortcoming … comes from the fact that it is based on non-linear least squares" (NLS) which "may lead to numerically*

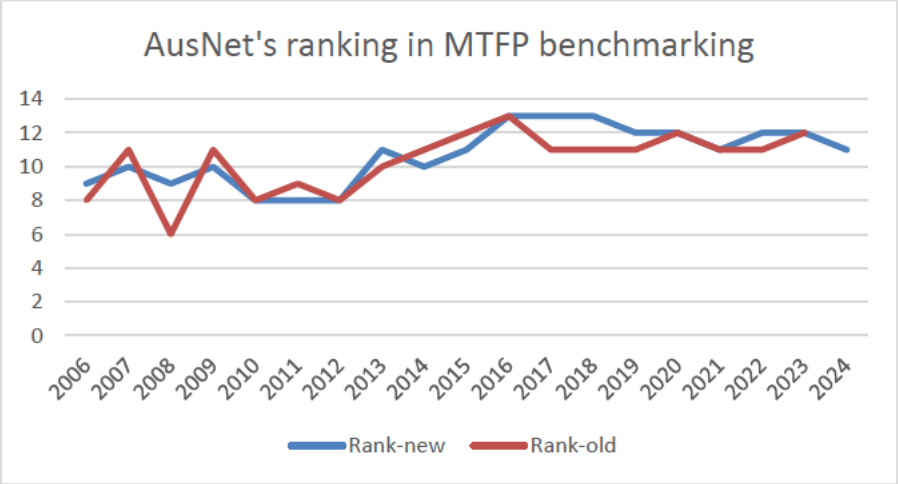
unstable results'.[1] Thus the magnitude of change in the weights appears to reflect **model instability** rather than genuine shifts in network characteristics or cost drivers that have occurred since the current output weights were derived. Material changes in output weights that do not reflect proportionate changes in the relative significance of capex and opex cost drivers undermines the consistency of benchmarking results over time, introduces volatility into DNSP performance assessments and makes benchmarking results less meaningful.

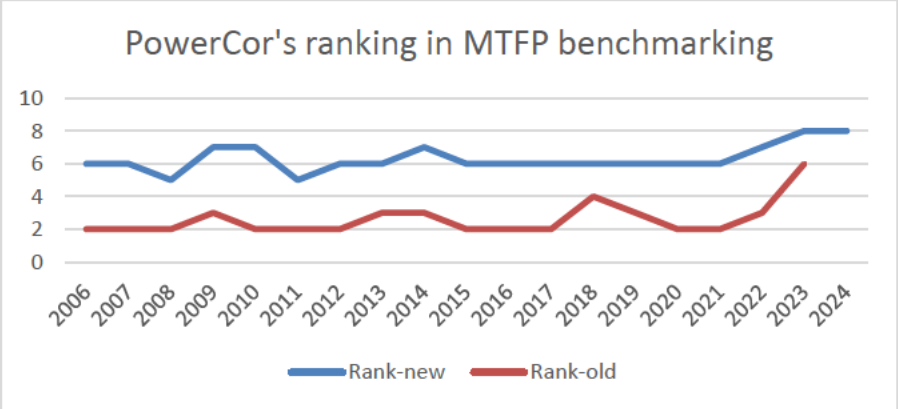
2. Disadvantage to Regional and Complex Networks

As discussed above, the revised output weights significantly increase weight of RMD and substantially decrease weight of Circuit length, which would disproportionately disadvantage DNSPs with:

- **Long circuit lengths**
- **Lower customer density**
- **Lower RMD**

These characteristics are typical of networks operating in **regional areas or complex environments**, such as AusNet's distribution network. Under the new output weights, AusNet's MTFP ranking declined in all years from 2016 to 2023, except for 2020, 2021, and 2023, where the ranking stayed the same. We also observe similar impacts on **PowerCor**, which operates in a comparable geographic and network context.





[1] Quantonomics, 'Memo - Nonreliability Output Index Weights ABR25', p2

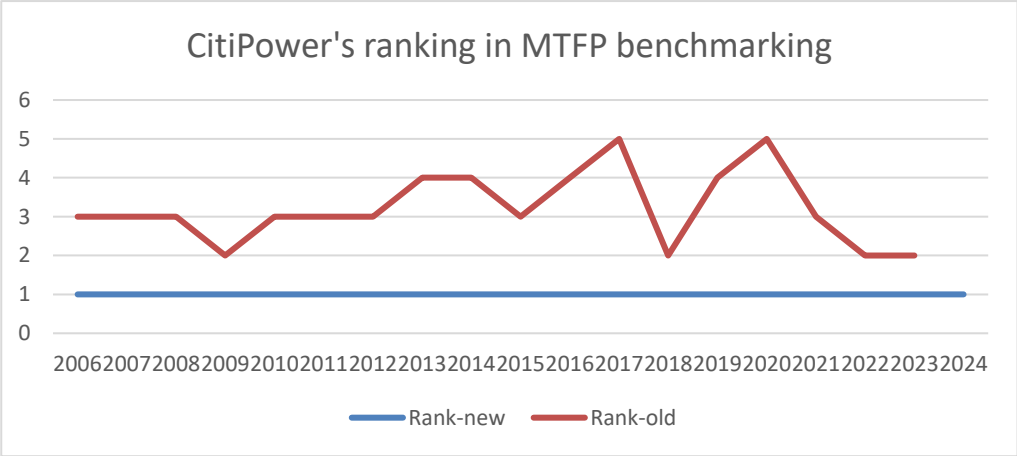
This shift in rankings does not reflect a true decline in underlying network productivity, but rather a change in the attribution of output due to the revised weighting. The benchmarking framework should not penalise DNSPs for structural characteristics inherent to their service areas, particularly in the case of rural networks which are relatively more expensive to operate than urban networks due to, among other factors, lower population density. In particular, reducing the output weighting for circuit length by 15% exacerbates this disadvantage.

3. Advantage to Urban and Suburban Networks

Conversely, DNSPs operating in **urban and suburban areas** — such as CitiPower, Evoenergy, and Ausgrid — have benefited from the updated output weights. These networks typically have:

- **Shorter circuit lengths**
- **Higher customer density**
- **Higher RMD**

Their improved MTFP rankings under the new weights reflect the reallocation of output shares, not necessarily superior operational performance. This introduces a distortion in comparative benchmarking outcomes.



4. Recommendation for Stability and Smoothing

While we acknowledge that the updated output weightings are checked against the estimated output weightings using CEPA's suggested alternative models, we remain concerned about the **volatility** of these estimates. The change in output weightings would distort the MTFP benchmarking results each time it is updated, if the volatility issue is not addressed.

We recommend that the AER explore:

- **Methods that produce more stable output weights over time**, and
- **Smoothing techniques** to minimise abrupt changes in output weights due to model sensitivity.

This would enhance the robustness of benchmarking results and ensure fairer comparisons across DNSPs with diverse operating environments.

We also recommend that the AER assess the intuitive soundness of updated output weights before adopting them in MTFP analysis, including whether the changes being considered would achieve closer alignment with the actual cost drivers networks face. We do not consider there to have been a material shift in cost drivers since 2020 that would justify the magnitude of change observed in our output weights.

Proposed enhancements to the benchmarking methodology to better account for terrain, storm risk, bushfire risk, and other factors

AusNet has previously recommended that the AER improve the benchmarking framework by addressing gaps in the treatment of operating environment factors (OEFs). The current OEF adjustments are incomplete and do not fully reflect the cost pressures faced by networks operating in complex environments. AusNet proposed enhancements to the benchmarking methodology to better account for terrain, storm risk, bushfire risk, and other factors that materially affect opex. These recommendations aim to improve the accuracy and fairness of benchmarking outcomes and support more informed regulatory decisions. These recommendations include:

- **Introduce a terrain adjustment**:
  - Use average elevation or steepness as a new explanatory variable in benchmarking models.
  - Recognise the cost impact of operating in mountainous and heavily vegetated areas.
- **Develop a Storms Risk OEF**:
  - Collect consistent data on severe storm-related opex through RINs.
  - Account for systematic storm impacts not captured in current models.
- **Update the Bushfire Risk OEF**:
  - Include new bushfire-related costs such as REFCLs and rising insurance premiums.
  - Recognise AusNet's higher exposure to bushfire-prone areas.
- **Correct and update existing OEFs**:
  - Revise the vegetation management responsibility OEF to reflect actual council involvement.
  - Update the taxes and levies OEF using more recent data provided by AusNet.
- **Consider Guaranteed Service Level (GSL) payments**:
  - Include GSL payments as an input in benchmarking or treat them as a separate OEF.
- **Undertake a holistic review of the benchmarking framework**:
  - Ensure the methodology reflects current network realities and regulatory obligations.

Please do not hesitate to contact [redacted] about this submission.

Sincerely,

[redacted]

Manager, Regulation (Electricity Distribution)
AusNet