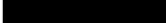


12 September 2025


Australian Energy Regulator
Level 19, 135 King Street
Sydney

Dear Sasha

Thank you for the opportunity to comment on the Quantonomics draft Benchmarking Report.

Correction to FY23 Opex

As part of the 2025 benchmarking, we note that the overstatement (approximately \$480,000) of our FY23 opex has been corrected, thus closing off on this data issue we raised in last year's benchmarking.

A minor correction is required regarding the reference to data correction for Ausgrid in Section 1.2, Updates to Data for the 2025 Report. This should read "Ausgrid (2023)" instead of "Ausgrid (2022)".

Update to Output weights

The 2025 draft report incorporates an update to the output weights for the four non-reliability output weights in the Productivity Index Number (PIN) models. Quantonomics applied the Lawrence-Diewert cost-share method to 2006-23 data (ie adding 5 more years of data since previous update), replacing the weights previously set in 2020. The table below shows the changes to the output weights over the last three update cycles.

Output	Pre-2018	2020 (corrected)	2025 update
Ratcheted maximum demand	17.60%	33.76%	47.83%
Circuit length	23.80%	39.14%	26.15%
Customer numbers	45.80%	18.52%	15.23%
Energy throughput	12.80%	8.58%	10.79%

As the table above indicates, ratcheted maximum demand (RMD) now accounts for about 47.83% of total cost (up from 33.76% under the previous weights), whereas circuit length's share dropped from 39.14% to 26.15%. Quantonomics cross-checked these new weights using alternative statistical techniques (quadratic and linear programming) and found the results to be robust.

We acknowledge the work that Quantonomics/AER have done to update the output weights for the 2025 benchmarking. However, we continue to be increasingly concerned that the output specifications and weighting have not yet evolved alongside industry changes. The four non-reliability outputs (energy, demand, customers, circuit length) were established in a period when a distribution network's role was one-directional and largely volume-driven. Today's reality for DNSPs is more complex. Demand-side initiatives (like peak shaving, energy efficiency) and CER integration (enabling solar exports, EV charging management) provide real economic value and can reduce total system costs, defer investments, and improve service to customers. Yet, these activities may appear as output reductions in the MTPF/MPFP models.

We therefore encourage the AER to review its benchmarking framework to ensure it remains fit-for-purpose in a rapidly evolving energy landscape.

Econometric model performance

Quantonomics flagged an ongoing technical concern that the Translog models continued to exhibit monotonicity violations in the 2025 update. In the 2025 draft report, the Translog models (LSETLG and SFATLG) showed significant monotonicity issues – for example, the LSETLG model failed the monotonicity condition for customer numbers in about 7.7% of Australian DNSP observations (and in over half of observations for CitiPower) for the full sample period. For the short period, the LSETLG model has monotonicity violations for 46.2% of Australian DNSP observations. The SFATLG model did not even converge to a solution this year, in both the long and short sample periods and have been omitted from the average efficiency scores. Quantonomics commented that the non-convergence of the SFATLG model in the long sample period represents a deterioration in performance compared to previous benchmarking.

Given the ongoing deterioration in the monotonicity performance of the Translog models, we support the priority development work that Quantonomics/AER are putting into the opex cost function review, to address model misspecification that may be causing non-convergence and monotonicity violations in models. Ausgrid intends to participate in the consultation process when the AER resumes the next stage of its review.

Thanks again for the opportunity to comment. Please let us know if you require clarification on any of the above.

If you have any questions, please do not hesitate to contact [REDACTED] at [REDACTED]

Regards,



Philippe Laspeyres
Economic Regulation Manager

