27 March 2026

Ms Kami Kaur
General Manager
Australian Energy Regulator
GPO Box 3131
Canberra, ACT, 2601

Dear Kami

Re. Feedback on Quantonomics Phase 2 Report

Thank you for the opportunity to comment on the *Electricity Distribution Benchmarking Opex Model Development Report (Phase 2)* prepared by Quantonomics for the Australian Energy Regulator (AER).

SA Power Networks supports the ongoing efforts to improve the robustness and reliability of the econometric opex cost function models. Given their central role in assessing base year opex efficiency, it is essential that any proposed methodological changes are clearly explained and subject to appropriate consultation so stakeholders can understand both the nature of proposed refinements and their implications for efficiency measurement.

We note that the Phase 2 report is explicitly characterised by Quantonomics as preliminary in nature[1], identifying potential refinements and areas for further investigation rather than recommending definitive model changes.

Upon our review we found that the report is presented in a form that is primarily suited to specialist econometric audiences. While this level of detail is appropriate for technical development, it limits the ability of non-econometric stakeholders to fully engage with, and test, the implications of the proposed approaches.

Given the highly technical and preliminary nature of the report, we have not undertaken detailed replication or validation of the modelling results, instead we provide the following high-level observations.

1. Support for addressing known modelling limitations

We support continued efforts to address known limitations in the current modelling framework, including the prevalence of monotonicity violations; and the restrictive assumption of time-invariant inefficiency.

The exploration of time-varying inefficiency models is a logical extension of Phase 1 and is consistent with stakeholder feedback that efficiency should be allowed to vary over time.

[1] Quantonomics, Electricity Distribution Benchmarking Opex Model Development, November 2025, p. 143

2. Further validation and consultation on model specification is required

We understand that other stakeholders have identified potential issues in relation to some of the models assessed in the report and are raising these in their submissions.

While we have not independently verified these issues, we consider it important that any such concerns are thoroughly investigated and transparently addressed prior to progressing toward implementation. This should include further consultation with stakeholders to test the robustness of proposed refinements and to ensure confidence in the resulting models.

3. Caution regarding potential changes to benchmarking application

Although the report does not recommend specific changes to the benchmarking framework, it notes that certain time-varying inefficiency models could theoretically enable efficient base year opex to be estimated directly[2], potentially reducing reliance on the benchmarking roll-forward model (BRFM). We strongly caution against any changes to the application of benchmarking outputs—particularly those affecting the BRFM or base year opex determination—without a dedicated consultation process.

Any proposed changes would need to be clearly articulated, supported by worked examples, and accompanied by an assessment of impacts on DNSP outcomes and incentives. We also emphasise the importance of maintaining stability and predictability in efficiency outcomes over time, avoiding artificial volatility or step-changes not reflective of underlying performance.

Summary of our position

Consistent with Quantonomics conclusions, we consider that the Phase 2 analysis an important step in refining the opex benchmarking framework. However, it does not yet provide a sufficient basis for implementing methodological changes.

Before any changes are made to either the econometric cost function models or their application within the base year opex assessment framework, we recommend that the AER undertake a further stage of consultation which:

- clearly specifies the proposed model(s) for adoption;
- explains how these models would be applied in practice (including interaction with the BRFM); and
- sets out the expected impacts on efficiency scores and regulatory outcomes.

In addition, any issues identified in relation to model performance or specification in the current analysis should be resolved prior to progressing to a more targeted consultation on preferred modelling approaches.

Please contact Debbie Voltz at [redacted] if you require any further information or clarification of the above.

Yours sincerely,

[redacted]

Richard Sibly
Head of Regulation

[2] Quantonomics, Electricity Distribution Benchmarking Opex Model Development, November 2025, p. 140