

9 October 2019

Mr Evan Lutton
Acting Director – Networks
Australian Energy Regulator
Level 17, 2 Lonsdale Street
Melbourne VIC 3001

Dear Evan

RE TasNetworks response to 2019 draft benchmarking report for distribution networks

Thank you for providing TasNetworks with an advance copy of the Australian Energy Regulator's 2019 Benchmarking Report for distribution network service providers, ahead of its public release in November. We appreciate the opportunity to review and comment on the report prior to its publication.

In response to previous draft benchmarking reports, TasNetworks has lodged submissions with the Australian Energy Regulator (**AER**) pointing out that the measure of Multilateral Total Factor Productivity (**MTFP**) contains an inherent bias which disadvantages networks that, like TasNetworks, operate little in the way of subtransmission lines with voltages of 33kV or higher. The AER has acknowledged that this is the case, and in the annual benchmarking report for 2015, published the following qualification.

TasNetworks, however, could be considered an outlier compared to its peers in terms of system structure, which influences its MTFP score to some extent. Compared to other DNSPs, TasNetworks operates substantially less high voltage subtransmission assets and has a comparatively high proportion of lower voltage lines. Therefore, Economic Insights advises that some caution is required in interpreting TasNetworks' MTFP score, given its comparatively unusual system structure.

A similar qualification appeared in the 2016 benchmarking report. The 2017 draft report omitted any such notation but was corrected in the final report after the omission was brought to the AER's attention. The draft 2018 report again omitted to qualify the benchmarking results presented for TasNetworks, but although this was brought to the AER's attention, the caveat regarding the assessment of TasNetworks' performance was not reinstated in the final report published in that year.

In the draft 2019 annual benchmarking report, TasNetworks's MTFP score is the lowest of the 13 distribution networks within the National Electricity Market (**NEM**) and, once again, the explanatory note regarding the impact that TasNetworks' system structure has on its benchmarking scores is absent from the report.



As previous testing by TasNetworks of the MTFP model's sensitivity to network composition has shown, applying the split between distribution and subtransmission lines from other distribution networks to TasNetworks' lines as an input to the model can see TasNetworks' ranking improve from least productive to as high as fourth, depending on the network configuration selected. The sensitivity of TasNetworks' MTFP score to different network compositions demonstrates why great caution needs to be exercised when interpreting and publishing raw benchmarking scores.

TasNetworks' raw MTFP score for 2017-18 and its ranking as the least efficient distribution network in the NEM are also at odds with the conclusions that might be gleaned from more simplistic, but still useful assessments. For example, comparison of the value of TasNetworks' regulatory asset base with those of other networks, whether measured on a per customer basis, against ratcheted maximum demand or energy delivered, sees TasNetworks appear comfortably within the ten best performing networks in the NEM. This is despite the comparative disadvantages TasNetworks faces in terms of factors like customer and energy density, as well as a decentralised customer base with a high proportion of rural and regional customers.

Similarly, despite a level of operating expenditure which was higher in 2017-18 than in recent years (with the exception of 2016-17), when measured against ratcheted maximum demand or energy delivered, TasNetworks' relative expenditure still sits well inside the ten lowest cost networks. Only when measured on a per customer basis does comparison of TasNetworks' operating expenditure in 2017-18 begin to show signs of the diseconomies of scale associated with servicing a relatively small customer base and the impact of the above trend level of expenditure in 2017-18.

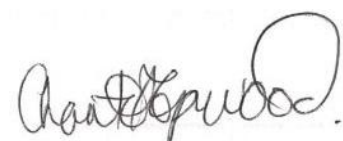
Experience has shown that the depiction of TasNetworks in the AER's annual benchmarking report for distribution networks as one of the lowest ranked distribution networks in the NEM leads stakeholders to draw inappropriate negative conclusions about TasNetworks' underlying efficiency.

Our understanding is that the modelling used by the AER's economic benchmarking consultants, Economic Insights Pty Ltd, has not changed for production of the 2019 benchmarking report, at least in terms of the measures of network outputs and inputs that inform the modelling. Therefore, we would ask the AER to reinstate the qualification that has appeared in previous benchmarking reports recommending caution when interpreting TasNetworks' MTFP score, given its comparatively unusual system structure.

TasNetworks has no other comments to submit in relation to the draft benchmarking report.

Once again, thank you for the opportunity to comment on the AER's draft 2019 Annual Benchmarking Report for distribution network service providers. To discuss the views expressed in this submission, please contact Scott Lancaster, Senior Regulatory Analyst, on (03) 6271 6519 or at scott.lancaster@tasnetworks.com.au.

Yours sincerely



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Leader Regulation