



27 October 2021

Mr Adam Rapoport
Assistant Director Networks Expenditure
Australian Energy Regulator
Level 16, 2 Lonsdale Street, Melbourne, VIC, 3000

By email: [REDACTED]

Dear Adam

AER 2021 Annual Benchmarking Report for distribution

CitiPower, Powercor and United Energy welcome the opportunity to provide feedback on the Australian Energy Regulator's (AER) draft 2021 annual benchmarking report.

We support the use of benchmarking as one of the tools in the AER's toolkit for assessing the efficiency of expenditure. We consider however there is room for further improving the AER's benchmarking approach.

As set out in our submission on the 2020 annual benchmarking report, we remain concerned by the AER's continued reliance on the multilateral total factor productivity (MTFP) model as the primary benchmarking model in the annual benchmarking reports. Numerous independent consultant reports have shown through evidence the cost function used by Economic Insights (EI) to derive the output weights for the MTFP model is unprecedented, not statistically valid and provides illogical outcomes.

Whilst the AER highlights specific issues for investigation, which include assessment of the difference in capitalisation approaches, and a review of the non-reliability output weights in the benchmarking models, we would encourage the AER to undertake a wider-ranging independent review of the benchmarking methodologies.

We would also encourage the AER to undertake an open industry-wide consultation process and provide an overview of its indicative timeline. The AER should consider all options for how to best address the specific issues for investigation and engage with the industry through an open and transparent process.

If you have any questions or would like to discuss this submission further, please contact Rachel Perlaki

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Kind regards

Megan Willcox
Head of Regulatory Performance and Analysis
CitiPower, Powercor Australia and United Energy