

27 October 2021

Mr Sebastian Roberts
General Manager Expenditure
Australian Energy Regulator

Sent via email

Dear Mr. Roberts,

AER 2021 Draft Annual Benchmarking Report – Electricity Distribution Network Service Providers

Energy Networks Australia appreciates the opportunity to provide feedback on the Australian Energy Regulator's (AER) 2021 Draft Annual Benchmarking Report for electricity distribution network service providers (DNSPs).

Energy Networks Australia (ENA) is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

Independent review of benchmarking methods

The AER's prior 2020 Annual Benchmarking Report included substantial changes to correct a coding error in Economic Insight's models, which materially impacted DNSPs' benchmarking results and rankings. We support the AER undertaking an independent review of benchmarking methods to ensure that the benchmarking framework delivers robust and replicable outputs, consistent with achieving outcomes that are in the long-term interests of customers.

In undertaking the review, we strongly encourage the AER to undertake an open industry-wide consultation process and provide stakeholders with an overview of its indicative timelines for the review. As highlighted in the AER's draft Better Resets Handbook, benchmarking is used by the AER to assess the efficiency of DNSPs' operating expenditure¹, and significant consideration is also given to benchmarking results by network businesses and consumer stakeholders. It is therefore important for all parties that there is confidence in the results.

Benchmarking development

In addition to undertaking the independent review of benchmarking methods, ENA also supports the AER continuing to undertake further benchmarking development.

¹ AER, *Draft Better Resets Handbook: Towards Consumer Centric Proposals*, September 2021.

In particular, for distribution benchmarking ENA highlights support for the AER:

- » progressing its 2019 Benchmarking Report commitment to refine the assessment and quantification of material operating environment factors (OEFs),
- » examining and consulting on the implications of cost allocation and capitalisation differences on the benchmarking results, and
- » reviewing the benchmarking output specifications as a result of increases in distributed energy resources and demand management activities across the industry. It is important that the AER's performance benchmarking evolves to accurately capture the valued services delivered by networks across an increasingly two-way electricity grid.

It would be useful for the final 2021 Annual Benchmarking Report to provide stakeholders with an overview of the prioritisation of the items that the AER has noted for review and development, along with an indicative timeline of when each item will be dealt with.

Next steps

Continual improvement of the reliability and applicability of the benchmarking results that the AER publishes and uses in network revenue determinations is a priority, and ENA considers that these development opportunities are best addressed in conjunction with networks through the formation of an industry benchmarking working group. We would welcome further engagement with the AER on this.

Once again, thank you for the opportunity to provide comment. If you have any questions, please contact Lucy Moon, Head of Regulation at [REDACTED]

Yours sincerely,



Garth Crawford
General Manager, Economic Regulation