



Memorandum

From: Denis Lawrence

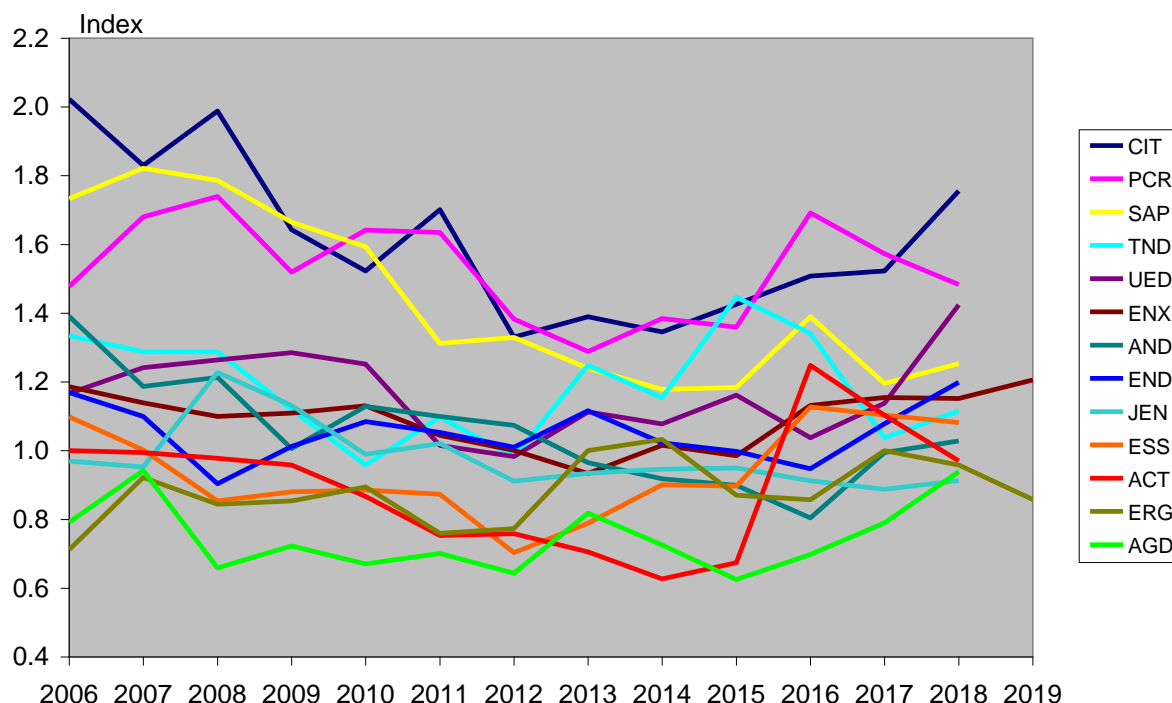
Date: 25 March 2020

To: AER Opex Team

Subject: Energex's and Ergon Energy's updated 2019 opex productivity

Economic Insights has been asked to update its opex productivity modelling reported in Economic Insights (2019a) to include actual 2019 data for Energex (ENX) and Ergon Energy (ERG). To do this we have extended the opex multilateral partial factor productivity (MPFP) modelling reported in Economic Insights (2019b) undertaken for the AER (2019) Annual Benchmarking Report which included actual data for all DNSPs for 2006 to 2018.

Figure 1: DNSP multilateral opex partial productivity indexes, 2006–2018, with ENX and ERG extended to 2019



Opex MPFP results are presented in figure 1. Looking first at average opex MPFP performance over the 13-year period 2006 to 2018, ENX lay in 6th place with an opex MPFP level 67 per cent of that of the best performing DNSP on this measure while ERG lay in 12th place with an opex MPFP level 55 per cent of that of the leading DNSP. ENX's average annual opex MPFP growth rate was -0.3 per cent while ERG's was 2.5 per cent.

Turning to 2018 opex MPFP performance, ENX still lay in 6th place with an opex MPFP level 66 per cent of that of the best performing DNSP on this measure while ERG had improved one position to 11th place with an opex MPFP level 55 per cent of that of the

leading DNSP. It is important to note that by 2018 the opex MPFP levels of the leading DNSP, ENX and ERG had all increased relative to their respective averages for 2006 to 2018. The leading DNSP's opex MPFP had increased by 9 per cent while ENX's and ERG's opex MPFP had increased by 6 per cent and 9 per cent, respectively.

Turning to the ENX and ERG data for 2019, ENX's opex MPFP level increased by 5 per cent relative to its 2018 level while ERG's decreased by 10 per cent. If we compare ENX's opex MPFP level in 2019 with the actual levels of the other DNSPs in 2018, ENX would move from sixth position to fifth position, behind CIT, PCR, UED, and SAP although it would be only marginally ahead of END. If we compare ERG's opex MPFP level in 2019 with the actual levels of the other DNSPs in 2018, ERG would fall from 11th to 13th position, having the lowest opex MPFP of the included DNSPs and with its opex efficiency score lying over 3 percentage points below that of JEN. While the opex MPFP levels of the other 11 DNSPs are effectively assumed to remain unchanged between 2018 and 2019 in this comparison, it should be noted that in 2018 8 of the other 11 DNSPs increased their opex MPFP levels relative to 2017 with 5 of these achieving increases of over 5 per cent and another 2 increases of over 3 per cent.

References

- Australian Energy Regulator (AER) (2019), *Annual benchmarking report – Electricity distribution network service providers*, Melbourne, November.
- Economic Insights (2019a), *Productivity of Energex's and Ergon Energy's proposed base year opex*, Memorandum prepared by Denis Lawrence for the Australian Energy Regulator, Eden, November.
- Economic Insights (2019b), *Economic Benchmarking Results for the Australian Energy Regulator's 2019 DNSP Benchmarking Report*, Report prepared by Denis Lawrence, Tim Coelli and John Kain for the Australian Energy Regulator, Eden, November.