

6 February 2015

Mr Chris Pattas
General Manager, Network Investment and Pricing
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Submitted via: TransGridrevenuereset@aer.gov.au

Dear Chris

Benchmarking approach in the AER's draft decision on TransGrid's determination

Grid Australia welcomes the opportunity to provide this submission in response to the AER's draft decision on TransGrid's regulatory determination for the 2015-16 to 2017-18 regulatory control period (AER reference: 53444). This letter specifically responds to the AER's approach to economic benchmarking which was used to inform that draft decision.

Grid Australia understands that the AER seeks to use benchmarking to measure the relative efficiency of TNSPs in the NEM. Grid Australia supports the implementation of robust benchmarking. However, Grid Australia is concerned that the AER's current approach to benchmarking is not producing meaningful results and that relying on those results when making revenue determinations may not only be premature, but could lead to inappropriate revenue outcomes for some TNSPs. As such, it is concerning that the draft decision has relied upon output weights and data from the AER's multilateral total factor productivity (MTFP) benchmarking analysis in calculating the rate of change applied to TransGrid's forecast operating expenditure.

The approach taken in the draft decision may not be appropriate because differences observed between TNSPs in the AER's annual benchmarking report do not necessarily reflect inefficiency – they may simply reflect differences between the businesses. While one TNSP may be assessed under the current MTFP model or partial performance indicators as being less efficient than another that does not mean that it is, by definition, inefficient, particularly given that the AER's models are not able to factor in all of the material environmental differences which give rise to differences in the underlying efficiency of each TNSP. The benchmarking data collected thus far is not sufficiently robust to enable reliable conclusions to be made about the relative performance of TNSPs, due to different interpretations of the RIN requirements by TNSPs.

Grid Australia has previously raised concerns with the AER about the limitations of benchmarking TNSPs in the NEM from a technical perspective and notes that independent advice recently received from HoustonKemp in TransGrid's revenue determination process raises questions about the AER's model specifications.

A Proposed Way Forward

Grid Australia acknowledges that the AER is required to publish annual benchmarking reports in accordance with the National Electricity Rules and is supportive of the intent of benchmarking.

Grid Australia also considers that for the benefit of all stakeholders, it is important that the AER adopt a transparent and robust approach to benchmarking that provides meaningful and less volatile outcomes, from a practical as well as a theoretical perspective.

Grid Australia would welcome the opportunity to work with the AER to further develop and improve its approach to benchmarking of TNSPs. This may go some way to ensuring that the underlying data upon which the benchmarking is based is consistent. Grid Australia also considers there would be benefit in bringing together Economic Insights and HoustonKemp to better understand and address the technical questions raised in relation to the AER's benchmarking report.

Please do not hesitate to contact me on (08) 8404 7983 or korte.rainer@electranet.com.au if you wish to discuss any matter raised in this submission.

Yours sincerely



Rainer Korte
Chairman
Grid Australia Regulatory Managers Group