

20 October 2021

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Dear Esther,

Re: Draft 2021 TNSP Annual Benchmarking Report

We welcome the opportunity to provide this submission regarding the AER's draft 2021 transmission network service providers (TNSPs) benchmarking report.

While we remain supportive of transmission benchmarking, we hold strong concerns regarding the veracity of the current benchmarking model specification and, as a result, the drawing of conclusions from it regarding comparative efficiency.

The remainder of this submission sets out our key concerns with the current benchmarking model. We also provide several comments on the observations made in the draft report and some suggested improvements to how the benchmarking results are presented.

The current benchmarking model does not provide meaningful comparisons of relative productivity

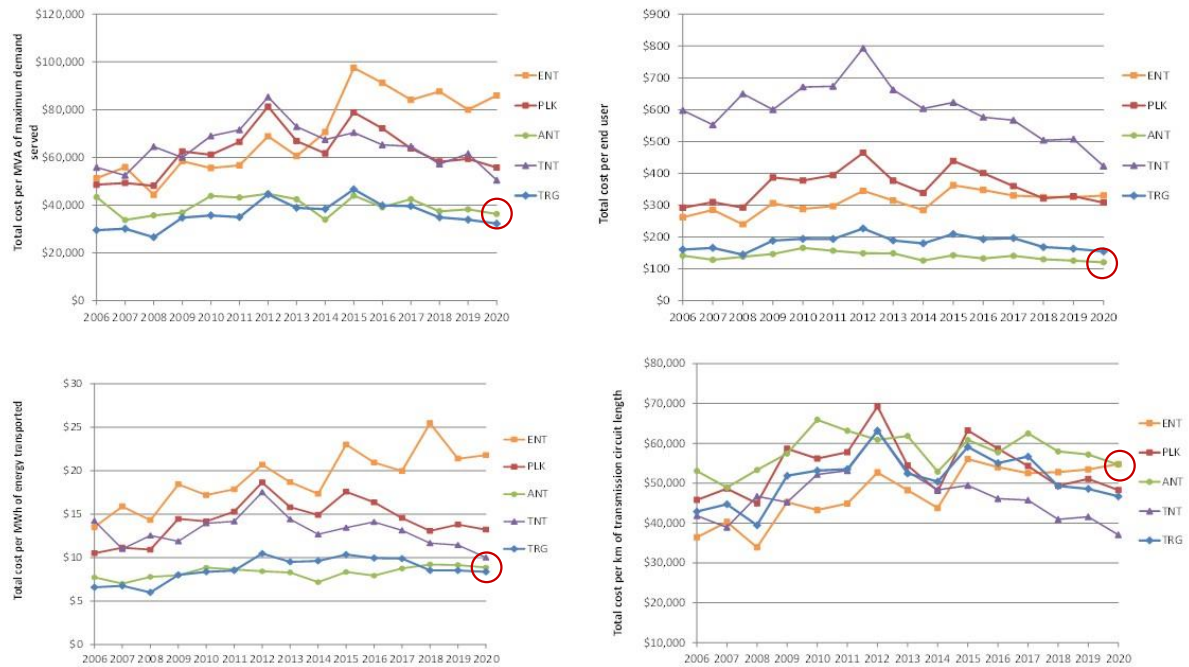
As stated in our comments on the preliminary 2021 benchmarking results, we are highly concerned that Economic Insights states that the MTFP and MPFP measures can now be used to measure the comparative productivity of TNSPs, not just the trend.¹ Notwithstanding Economic Insights' response to our comments in its draft report,² we remain concerned with its and the AER's focus on the benchmarking model as a measure of relative productivity between TNSPs.

As a measure of relative productivity, the results are not intuitive. In three out of the four PPIs presented in the draft report, AusNet has either the lowest or second-lowest costs.

¹ AusNet, Email to the AER, 3 September 2021

² Economic Insights, Economic Benchmarking Results for the Australian Energy Regulator's 2021 TNSP Annual Benchmarking Report – Draft Report, 3 October 2021

Figure 1: Partial performance indicators

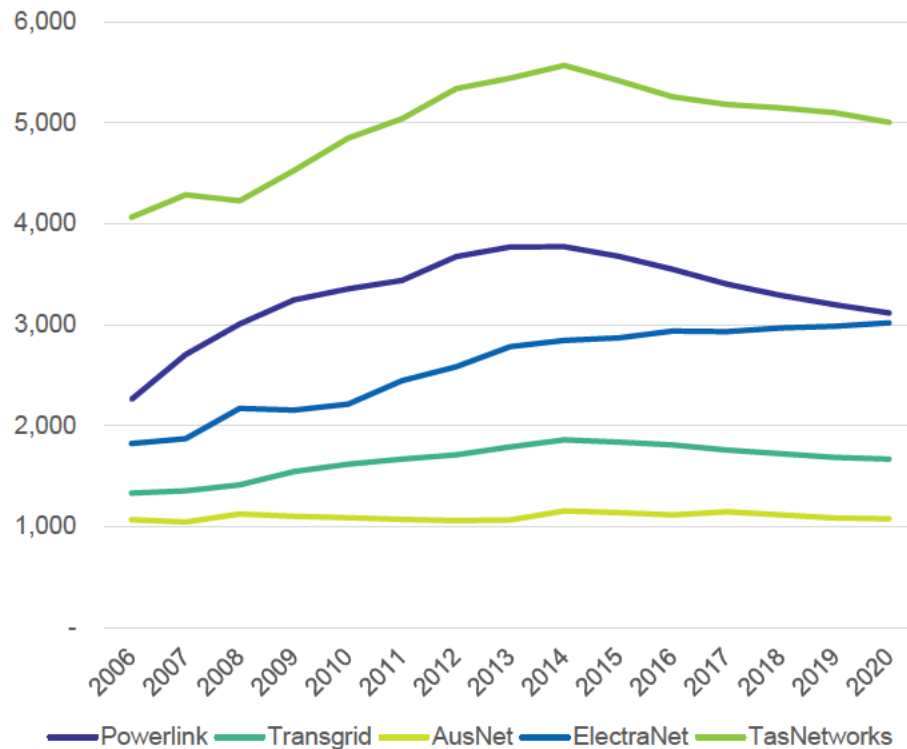


Source: AER, Draft 2021 TNSP Annual Benchmarking Report

The PPI results shown above are in stark contrast to the MTFP results being produced by the current model. For example, despite being the top two performers on three of the four measures shown above, AusNet and TransGrid are measured as the least two productive TNSPs in the NEM in terms of MTFP.

Furthermore, despite having the lowest RAB per end-use customer (as shown in Figure 2), AusNet and TransGrid are measured as having the lowest capital MTFP under the current benchmarking model.

Figure 2: RAB per end-use customer (\$2020)



Source: AER, 2021 Network Performance Report; Economic Insights, 2021 benchmarking dataset; AusNet analysis

We are unable to understand or explain the conceptual basis for these different results. This is important as many stakeholders, including customer advocates and investors, draw conclusions from these results about TNSPs' productivity³. Rather than accepting the results of the modelling as a fait accompli, being able to explain the results is critical to promoting confidence in them.

The need for this is underscored by the change in the model weightings between the 2019 and 2020 benchmarking reports that resulted in material changes in the rankings of networks, as shown below. The ability to understand and explain the results is an important safeguard to help identify errors and model misspecifications that, if unaddressed, will lead stakeholders into drawing erroneous conclusions.

³ See, for example, the CCP23 presentation on the AER's Draft Decision on our Transmission Revenue Reset (accessed here: <https://www.aer.gov.au/system/files/CCP23%20-%20Presentation%20-%20Predetermination%20conference%20-%20AusNet%20Services%20Transmission%202022-27%20-%205%20August%202021.pdf>, slide 34)

Figure 3: MTFP results in the 2019 and 2020 Annual Benchmarking Reports, showing Impact of Change in Rankings

Figure 4.1 Electricity transmission MTFP indexes by TNSP, 2006–2018

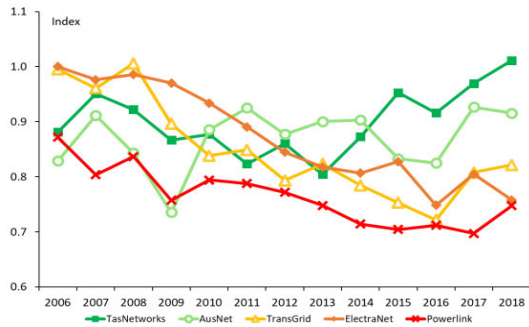
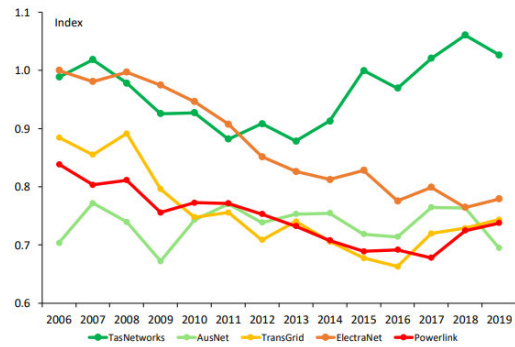


Figure 2 Electricity transmission MTFP indexes by TNSP, 2006–2019



Source: AER 2019 and 2020 transmission benchmarking reports

We would welcome discussions with the AER and Economic Insights on this point.

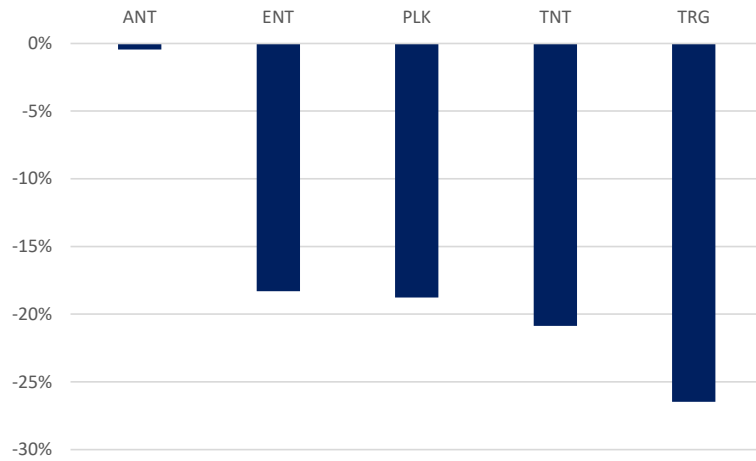
While we welcome the draft report’s continued use of qualifying statements regarding the model’s inability to account for operating environment factors (other than network density differences which, as explained below, may not be properly accounted for by the circuit length output), we consider commentary regarding the model’s usefulness as a measure of relative productivity and efficiency should be removed from the report.

For example, on page 26 the report states that “MTFP is the headline technique we use to measure and compare the relative productivity of individual TNSPs.” Given the model as currently specified does not allow for robust comparisons to be made between TNSPs, we encourage the AER to reconsider whether this statement accurately reflects its current use of the benchmarking results.

Indices are more useful measures of performance over time

On page 29 of the draft report, the AER states that “Figure 4.2 shows that capital productivity has generally declined for all TNSPs since 2006, although the rate of decline has decreased over the more recent period 2012 to 2020.” We question the accuracy of this statement. While the capital productivity of other networks has declined between 18% and 26% since 2006, AusNet’s capital MPFP has remained stable during this period. This is demonstrated by Figure 4. We encourage the AER to correct this statement to ensure it accurately reflects the capital productivity trends of each TNSP.

Figure 4: Change in capital MTFP, 2006-20

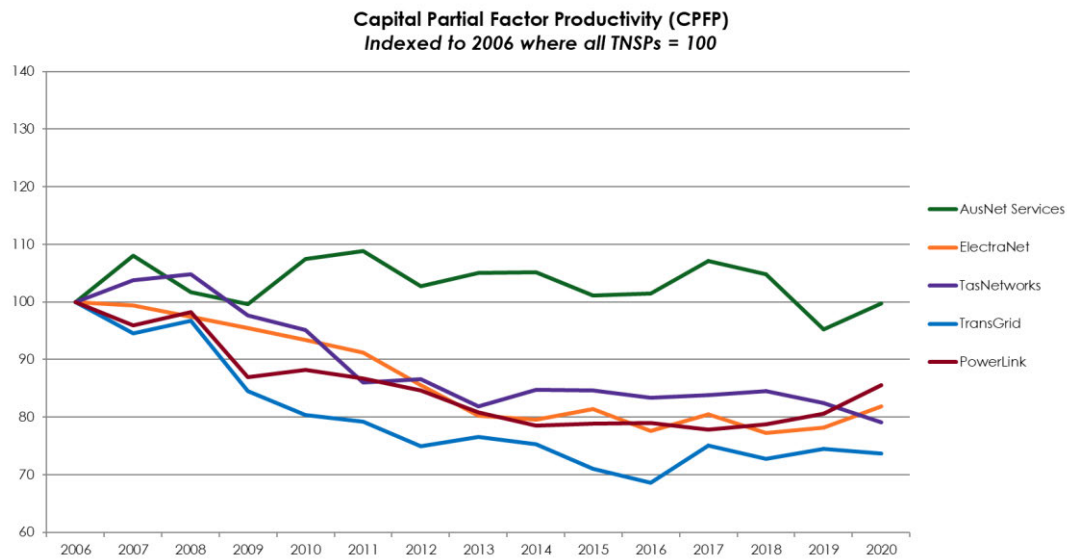


Source: Economic Insights, 2021 benchmarking dataset

To allow for trend comparisons to be made more easily, we believe it would be most useful for stakeholders if the MTFP and MPFP measures are presented as an index that allows TNSP's different productivity trends to be compared from a given start point. This approach would align more closely with stakeholder views that transmission benchmarking is more informative as to productivity trends rather than comparisons between networks.

As an example, the figure below shows the capital MTFP results converted to index form, using 2006 as the starting point. This clearly demonstrates the trends described above and answers the important question for stakeholders of whether TNSPs are getting better and who is getting better faster.

Figure 5: Capital MTFP, reproduced in index form



Source: AusNet analysis

We support a comprehensive review of the benchmarking model's specification

While the AER states that PPIs “do not take interrelationships between outputs into account”, given the PPI measures are constructed from the same outputs as the MTFP model, we consider that the significant divergence between the two measures could indicate substantive MTFP model misspecification issues.

More work and consultation is required before conclusions on relative efficiency can be drawn. In this regard, we welcome the AER's indication that it is timely to consider whether the current specification continues to be appropriate. We support a comprehensive review of the model specification and the AER's intent to conduct an independent review of the model's outputs. To provide certainty to stakeholders, we encourage the AER to communicate the timeline for this review as soon as practicable. This review should carefully examine the current model's output parameters and weightings to ensure they are fit for purpose.

Regarding this review, Economic Insights states that:⁴

“Powerlink also considered that it would be timely for the AER to reassess the suitability of the current benchmarking methodology in light of recent changes and current developments in the power system. These issues are to be addressed via a scoping paper as part of this year's benchmarking exercise. The scoping paper relating to TNSP benchmarking will address opportunities to improve the benchmarking methods especially having regard to new responsibilities of network operators arising in relation to current market reforms.”

We support the need for the benchmarking model to account the increasing range of services and outputs transmission networks are providing to facilitate the energy transition. However, we consider that any model changes in response to the evolving role of TNSPs should appropriately consider the unique transmission arrangements applying in Victoria, to ensure networks are compared on a consistent basis where possible.

For example, the measures available to TNSPs to manage low system strength (and other power system security issues), such as network support arrangements and network investment, differs between Victoria and other jurisdictions. These differences, as well as other features of the Victorian arrangements that mean emerging operational challenges are managed differently in Victoria, are likely to affect AusNet's inputs and outputs differently to those of other TNSPs. Careful thought should be given to how these differences are addressed through changes to the benchmarking model.

We also strongly encourage the scoping paper to take a broader view of the robustness of the current model and the improvements that are needed to ensure it is fit for purpose. In particular, we encourage the AER (and the independent consultant it appoints) to consider whether the output weight given to circuit length is appropriate. While there is merit in including circuit length in the output specification to normalise for differences in customer density, the very high weighting given to this output (53%) means it has an outsized impact on the results of the model and, therefore, may be over-correcting for customer density.

⁴ Economic Insights, Economic Benchmarking Results for the Australian Energy Regulator's 2021 TNSP Annual Benchmarking Report – Draft Report, 3 October 2021, p.3

If you would like to discuss any aspect of this submission, please contact Rob Ball, Principal Economist, at [REDACTED]

Sincerely,

A handwritten signature in black ink that reads "C. Eddy". The signature is written in a cursive style with a long horizontal stroke extending from the end of the name.

Charlotte Eddy
General Manager Regulatory Strategy and Policy
AusNet Services