

20 October 2021

Mr Sebastian Roberts
General Manager
Expenditure
Australian Energy Regulator

Via email:

Dear Sebastian

re: AER Draft Annual Benchmarking Report 2021

ElectraNet appreciates the opportunity to provide feedback on the AER's draft 2021 Annual Benchmarking Report for electricity transmission.

As noted in previous submissions on the AER's benchmarking measures, a number of serious limitations remain with the current economic benchmarking approach. We welcome the AER's acknowledgement of this in the draft report and, in particular, the plan to consider whether output measures currently included in the model are appropriate moving forward.

The overall purpose of economic benchmarking, which is set out in the National Electricity Rules (6A.31), is to:

...describe, in reasonably plain language, the relative efficiency of each Transmission Network Services Provider.

While there are clear shortcomings, this purpose is achieved to some extent by the Multilateral Total Factor Productivity measure. However, in relation to the Multilateral Partial Factor Productivity measures, these at best reflect the relative balance of that cost between operating and capital expenditure, but little more. In our view therefore the Multilateral Partial Factor Productivity measures receive too much prominence in the report.

As an illustration, given that ElectraNet ranks highly in partial capex productivity terms, the only meaningful improvements that could be sought are in partial opex productivity. This would require for example a reduction in maintenance expenditure, which in turn would require additional capital expenditure to prevent deterioration in reliability or safety outcomes. This would simply see an improvement in one partial measure at the expense of another, but without any clear improvement in overall customer outcomes.

The two partial measures in isolation therefore add little value and are at risk of creating perverse incentives if seen in this light. In our view they should be given less prominence in the AER's reporting.

Our more detailed concerns relating to the underlying models and measures remain as outlined in detail in our response to Economic Insights' draft 2021 report and the AER's draft 2020 report. Without repeating these concerns here, we look forward to these matters being addressed during the forthcoming review referred to above.

Thank you for the opportunity to respond to the AER's draft report. Should you wish to discuss any aspects of this response, please contact me in the first instance on [REDACTED]

Yours sincerely



Simon Appleby
Manager Regulation and Investment Planning