

19 November 2020

Claire Preston  
Director Network Expenditure  
Australian Energy Regulator

*Submitted via email*



Dear Ms Preston,

### **Submission to AER's draft 2020 TNSP and DNSP benchmarking reports**

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the AER's draft benchmarking reports.

While benchmarking, by its very nature, will not be able to fully reflect some unique qualities of each business or of a particular year, it is an essential tool in providing stakeholders a transparent and impartial measure of network performance both over time and against their peers. This submission outlines comments and recommendations to assist the AER continue to adapt and refine its benchmarking method, the interpretation of the insights it provides and how these are communicated and used.

#### **Network reliability**

PIAC agrees that the recent reduction in both transmission and distribution network reliability is not a cause for concern. This is a correction to more efficient levels from an earlier period of very high reliability driven by over-investment in network infrastructure. In this context, we consider it is a positive development as network performance comes closer to consumers' preferences regarding the trade-off between price and reliability.

#### **Convergence of performance**

PIAC is concerned that in several metrics, both transmission and distribution business performance has converged towards the median-performing businesses. This is in contrast to a market or industry with effective, competitive outcomes where we expect performance of all successful firms to converge towards the top-performing firms.

While improvements by the lower-performing businesses are welcome, we are concerned by the diminished performance of some of the higher-performing businesses. PIAC recommends the AER continue to monitor this trend and determine whether changes are required to address this.

#### **The impact of Distributed Energy Resources**

PIAC agrees that network spending to enable or make use of Distributed Energy Resources (DER) isn't necessarily well-reflected in the current benchmarking framework. The consequences of this on the insights provided by

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benchmarking will only grow over time as DER becomes more prevalent and more important in network operations and planning.

PIAC recommends the AER begin work examining how the impact and opportunities of DER on network expenditure can be meaningfully reflected in benchmarking. We do not consider this needs to be finalised for the next report, given the number of other processes related to DER still underway that will have material impacts on how networks can or must respond to DER uptake. Nonetheless, it is important to begin examining how DER affects the current metrics used and what supplementary metrics could be introduced to shed more light on how networks interact with DER.

### **The impact of Integrated System Plan projects**

Like DER expenditure for distribution networks, we consider the coming expenditure on Integrated System Plan (ISP) projects will have a similar impact on benchmarking Transmission Network Service Providers (TNSP). For instance:

- Since ISP projects are significantly larger and lumpier capital investments than most other transmission projects, they will have a noticeable impact on the benchmarking metrics of the TNSPs delivering them. This can make comparison against historical performance less meaningful and also obscure their performance in network operation and delivering non-ISP projects.
- This can have an even bigger impact on the insights that can be gained from benchmarking if there is a delay between expenditure being incurred (which is reflected in the input metrics) and the benefits accruing (which is reflected in the output metrics).
- The drivers of ISP projects include unlocking new renewable generation which will not necessarily be reflected by the current output metrics.
- And as ISP projects may deliver benefits across multiple regions, expenditure by one TNSP may affect the performance of a neighbouring TNSP (e.g. energy delivered or network reliability) either positively or negatively.

Together these may reduce how useful the current metrics are at scrutinising a TNSP's performance over time, and in assessing a TNSP against its peers.

Given the scale of the ISP projects, we consider it essential that a TNSP's ability to plan and deliver these projects is also able to be scrutinised such as through benchmarking.

Therefore, PIAC recommends the AER begin work on whether the current benchmarking approach and metrics can still adequately measure TNSP performance in terms of both ISP expenditure and non-ISP (or business-as-usual) expenditure. While it is not necessary to have these in place for next year's report, it is essential to begin examining this issue now in order to have metrics and approach ready for when major ISP projects are due to be delivered.

### **Reporting on changes and trends**

PIAC notes that many of the headline announcements of the draft reports relate to year-to-year changes in metrics. While this is important, we consider it more meaningful to examine the trends that may underlie such changes.

For instance, the AER notes that the reduction in productivity this year is in step with the broader economy. However, it is only in the body of the report that it mentions both that

distribution and transmission businesses have shown a general downward trend since 2006 (albeit with a noticeable uptick from 2015-18), which has been out of step with the broader economy trend.<sup>1</sup>

PIAC recommends the AER give more prominence (especially in the executive summary) to reporting and commenting on the trends in network expenditure and performance rather than the year-to-year changes.

### **Continued engagement**

PIAC would welcome the opportunity to meet with the AER and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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<sup>1</sup> AER, *Draft Annual Benchmarking Report – DNSPs*, Nov 2020, iii and 12-13. AER AER, *Draft Annual Benchmarking Report – TNSPs*, Nov 2020, iii and 19-20.