Benchmarking Sub-Panel

Meeting #1 | Summary Notes

Details	Members	AusNet Staff	External Observers
10.30am-12.30pm Thursday 4 May 2023 **Online (MS Teams)** **Chair:** Charlotte Eddy **Secretariat:** AusNet	Kieran Donoghue Mark Grenning	Charlotte Eddy Angella Nhan Lucy Holder **Observing:** James Bleed	David Prins (AER Consumer Challenge Panel) Adam Rapoport (AER) Sasha Jergic (AER)

Purpose of Session	• Confirm the remit and role of the Benchmarking Sub-panel • Educate and answer questions on the AER's benchmarking framework and AusNet's performance within • Develop a focus question/s to guide the work of the Benchmarking Sub-Panel

Item	Time	Topic	Lead/s
	10.30am	Welcome	**Charlotte**
Part 1	**10.35am**	EDPR engagement strategy and plan	**Lucy**
Part 2	**10.40am**	What is benchmarking?	**Angella**
Part 3	**10.45am**	How does it fit into EDPR and relate to the opex forecast?	**Angella**
Part 4	**10.50am**	AER's existing models & results	**Angella**
	11:05am	*Break (5 mins)*	
Part 5	**11.10am**	Post-modelling adjustments (operating environment factors)	**Angella**
Part 6	**11.55am**	AER's current work	**Angella**
Part 7	**12.05pm**	Developing focus questions	**Lucy**
	12.25pm	Close	**Charlotte**

Summary

Welcome & Introductions

Key points

- Members and observers were welcomed to the meeting and introduced themselves.

Part 1: The benchmarking workstream

Topics	Discussion points
Benchmarking Workstream	• Acknowledged there's going to be a level of adjustments, lots of interactions and trade-offs between workstreams. AusNet responded it's clearly linked to opex and the views of this sub-panel will be used to inform this discussion.
	• AusNet took an action to highlight the parts of the proposal the Benchmarking Sub-Panel will inform.
	• A member asked why the sub-panel is targeting the inform/consult level of engagement on benchmarking. AusNet clarified that many of its views are quite firmly fixed (and in many cases longstanding) but any new issues or improvements will be discussed with the panel.

Part 2: What is benchmarking?

Topics	Discussion points
What is benchmarking?	• The purpose of benchmarking was discussed, as a way to measure how efficient firms are at using inputs to produce outputs, over time and compared with their peers.
	• Confirmed FY24 is likely going to be the opex base year used.
	• It was clarified the rate of change captures the historical CPI but not any real price increases. Accounts for output growth and productivity, the Opex is in real prices taking in account labour price growth.

Part 3: How does it fit into EDPR and relate to the opex forecast?

Topics	Discussion points
How does it fit into EDPR and relate to the opex forecast?	• Clarified that if a network's base year opex is deemed efficient, then the base year opex is used to develop the opex forecast.

Part 4: AER's existing models and results

Topics	Discussion points
AusNet's performance	• AusNet's current and historical benchmarking performance was discussed, and it was acknowledged AusNet looks poor on the comparisons used by the AER, and looks a better on the econometric models than the PFP models.
	• Discussion around the positive 0.5 assumption, and the AER's process for forming the base year.
Mechanics of the AER's roll forward model	• How the rate of change is calculated was discussed, accounting for output growth and productivity. It was clarified opex is put into real prices which accounts for labour price growth (i.e. it's implicitly taken into account).

- A panel member confirmed that AusNet freezes the cost allocation method as changes since can influence what is in the capex and opex bucket to avoid it messing up the comparison overtime
- Re: slide 21, AusNet said it doesn't account for the OEF framework – AER said it does start to come into account in Step 2.

Part 5: Post-modelling adjustments

Topics	Discussion points

Post-modelling adjustments	• There was a lot of discussion to clarify the methodology for OEFs and benchmarking adjustments. The AER also participated in the conversation. Key points in included:
	
	   – Undergrounding being accounted for in the econometric model
	
	   – How OEFs are classified and quantified
	
	   – What other options AusNet might have re: OEFs. E.g. Could GSLs be taken out at the very beginning or could it be an adjustment at the post-modelling stage? In terms of accuracy, AusNet said its preferred approach would be to simplify GSLs by removing GSLs at the beginning.
	
	   – The AER making adjustments relative to the comparator average.
	
	• AusNet took an action to share opex per customer with the panel.

AusNet's benchmarking proposal	• AusNet presented its Benchmarking Methodology Paper and discussed terrain, severe storms, bushfire risks, GSLs and macroeconomic factors.
	
	• Discussion included:
	
	   – The best methodology for calculating a terrain adjustment, noting that you could look only at areas with network assets or the whole distribution region. There was general agreement that the terrain complexity calculations should be somewhere between (1) looking at areas with assets and (2) looking at the whole of AusNet's area, given areas without network assets also contribute to network complexity.
	
	   – Clarifying that AusNet's approach for severe storms (collecting cost data) is similar to the cyclones OEF, yet it has not been implemented because there is no easy way to define the extent and occurrence of severe storm when there are no meteorological shapes or boundaries.
	
	   – There was a request to re-cut the SAIDI/SAIFI charts (related to severe storms) to show how much is due to MEDs vs. non-MEDs.

Part 6: AER's current work

Topics	Discussion points
AER's current work	• Not discussed due to time constraints

Part 7: Developing focus questions

The Benchmarking Sub-Panel created a focus question, which is outlined below. They were comfortable only one was needed.

Topic	Question	Things to consider when answering
Benchmarking	***How might benchmarking be applied to give customers confidence they're paying no more than necessary for an efficient service?***	• AER's current benchmarking approach • AusNet's cost drivers • Analysis on whether modifications would improve the accuracy of benchmarking • What is a realistic expectation of ongoing productivity gains? • Deeper analysis to understand whether AusNet is efficient, reflecting conversations above • *If it is deemed that AusNet is not efficient*, what changes will be made so it becomes so?

Close & Next Steps

Charlotte Eddy thanked everyone for their time, provided a summary of actions arising from the meeting, and closed the meeting.

Action items

Action	Assigned to	Status	Due date
AusNet to highlight areas of the proposal that the panel can inform on	AusNet Reg team	Ongoing	N/A
AusNet to look at formally adding Opex to the panel's remit	AusNet Reg team	Underway	N/A
AusNet to share opex per customer for last 10 years	AusNet Reg team	Not yet started	Meeting #2
AusNet to re-cut terrain graphs on slide 28 to reflect where AusNet's network sits (rather than the whole distribution area) *[If practical] AusNet to produce similar comparisons for Essential, TasNetworks & SAPN*	AusNet Reg team	*This will be progressed if required during the course of an active review of this OEF*	
Pull out data excl MEDs on slide 32	AusNet Reg team	Underway	Meeting #2
Get into macroeconomic factors at a later time	AusNet Reg team	Not yet started	N/A
Get into capex efficiency at a later time	AusNet Reg team	Not yet started	N/A

^ R&E Team – Research and Engagement Team   # Reg Team – Regulation Team