DRAFT DECISION

TasNetworks
Transmission Determination
2019 to 2024

Attachment 6
Operating expenditure

September 2018

AUSTRALIAN ENERGY REGULATOR

- ratcheted maximum demand, 22.1 per cent
- energy throughput, 21.4 per cent
- weighted entry and exit connections, 27.8 per cent.

We have applied our approach as it reflects the outcome of our recent review of economic benchmarking of electricity transmission network service providers.

Forecast productivity growth

We have not included any forecast productivity growth. This is consistent with TasNetworks' proposal.[55] Our opex productivity growth forecast reflects our best estimate of the shift in the productivity frontier.[56]

Our productivity growth forecast reflects our expectation of the opex productivity growth an efficient service provider in the transmission industry can achieve. It reflects historic industry opex productivity growth to the extent we consider past performance to be a good indicator of future performance under a business-as-usual situation. This assumes there will be no significant structural change in the electricity transmission industry over the 2019–24 period relative to the 2006–16 period, which we used to measure historic productivity growth.

We have forecast zero productivity growth based on analysis provided previously by our expert consultant, Economic Insights. We consider this reflects a reasonable expectation of the benchmark productivity that an efficient and prudent transmission network can achieve for the forecast period because:

- Economic Insights has previously recommended we forecast productivity growth based on trend growth in opex MPFP performance measured in electricity transmission[57]
- opex MPFP growth, over the period from 2006 to 2016 is negative, but very close to zero, at the industry level.[58] We do not consider this is representative of long term trends and our expectations of forecast productivity in the medium term. The increase in the service provider's inputs, which is a significant factor contributing to negative productivity, is unlikely to continue for the forecast period.[59]

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55 TasNetworks, *Transmission Operating Expenditure Model*, 31 January 2018.

56 AER, *Expenditure forecast assessment guideline*, Explanatory statement, November 2013, p. 65.

57 Economic Insights, *Memorandum: TNSP MTFP Results*, 29 April 2016, p. 5.

58 Economic Insights, *Economic benchmarking results for the Australian Energy Regulator's 2017 TNSP benchmarking report*, 6 November 2017, p. 8.

59 For more details about the impact of inputs increase on opex MPFP, see: Economic Insights, *Economic benchmarking results for the Australian Energy Regulator's 2017 TNSP benchmarking report*, 6 November 2017, pp. 8–13.

- Economic Insights has previously recommended that a forecast opex productivity growth rate of zero should be used in the when measured productivity growth is negative.[60]
- as noted by Economic Insights, opex partial productivity trended up from 2006 to 2013 before falling in 2014 and 2015. There is some evidence that at least part of these recent falls reflect one-off events.[61] Consistent with this, we note that our preliminary analysis for our 2018 *Annual benchmarking report* shows opex MPFP improving in 2017.

CCP 13, however, recommended that we reconsider our zero productivity growth forecast.[62] In commenting on productivity growth, however, CCP 13 did not distinguish between distribution and transmission. For example, it stated that the trend in productivity growth may have reversed so that a positive productivity growth forecast may be sustainable.[63] This appears to be referring to growth in opex MPFP in distribution which, at the industry level, has averaged 2.97 per cent per year from 2012 to 2016.[64] By comparison, opex MPFP growth for electricity transmission has been almost the reverse of what we have seen for distribution. Over the period from 2006 to 2012 opex MPFP growth was positive. But from 2012 to 2016 it has been negative.[65]

Our standard approach to forecasting opex productivity growth for electricity transmission has been to use the measured industry average opex MPFP trend growth rate over the full period from 2006. This has been positive until recently and thus we have applied positive productivity growth in most of our transmission determinations since we published the Guideline. We will continue to monitor opex MPFP performance, which we measure for our annual transmission benchmarking report. At this point in time we remain satisfied that measured industry average opex MPFP trend growth remains an appropriate basis for forecasting opex productivity growth for electricity transmission.

6.4.3 Step changes

We have not included any step changes in our alternative total opex forecast. This is consistent with TasNetworks' proposal.[66]

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60 Economic Insights, *Economic Benchmarking Assessment of Operating Expenditure for NSW and ACT Electricity DNSPs*, 8 September 2014, pp. 55–57.

61 Economic Insights, *Memorandum: TNSP MTFP Results*, 29 April 2016, p. 5.

62 Consumer Challenge Panel, CCP Sub-Panel No. 13, *Advice to the AER, Response to proposals from TasNetworks for a revenue reset for the 2019–24 regulatory period*, 16 May 2018, p. 7.

63 Consumer Challenge Panel, CCP Sub-Panel No. 13, *Advice to the AER, Response to proposals from TasNetworks for a revenue reset for the 2019–24 regulatory period*, 16 May 2018, p. 61.

64 Economic Insights, *Economic benchmarking results for the Australian Energy Regulator's 2017 DNSP benchmarking report*, 31 October 2017, p. 3.

65 Economic Insights, *Economic benchmarking results for the Australian Energy Regulator's 2017 TNSP benchmarking report*, 6 November 2017, p. 8.

66 TasNetworks, *Transmission and distribution regulatory proposal*, 31 January 2018, p. 142.