Transend Draft Decision
ACCC Public Forum

EUAA Presentation

Hobart, 17th October 2003

ACCC – Let's Get Real!

- Tasmania already struggling to hold major industries (jobs!) let alone attract new ones
- Does the ACCC really think Tasmania can be helped in this 'struggle' by a "Transend led recovery"!
- The DD will only exacerbate the problems facing Tasmania

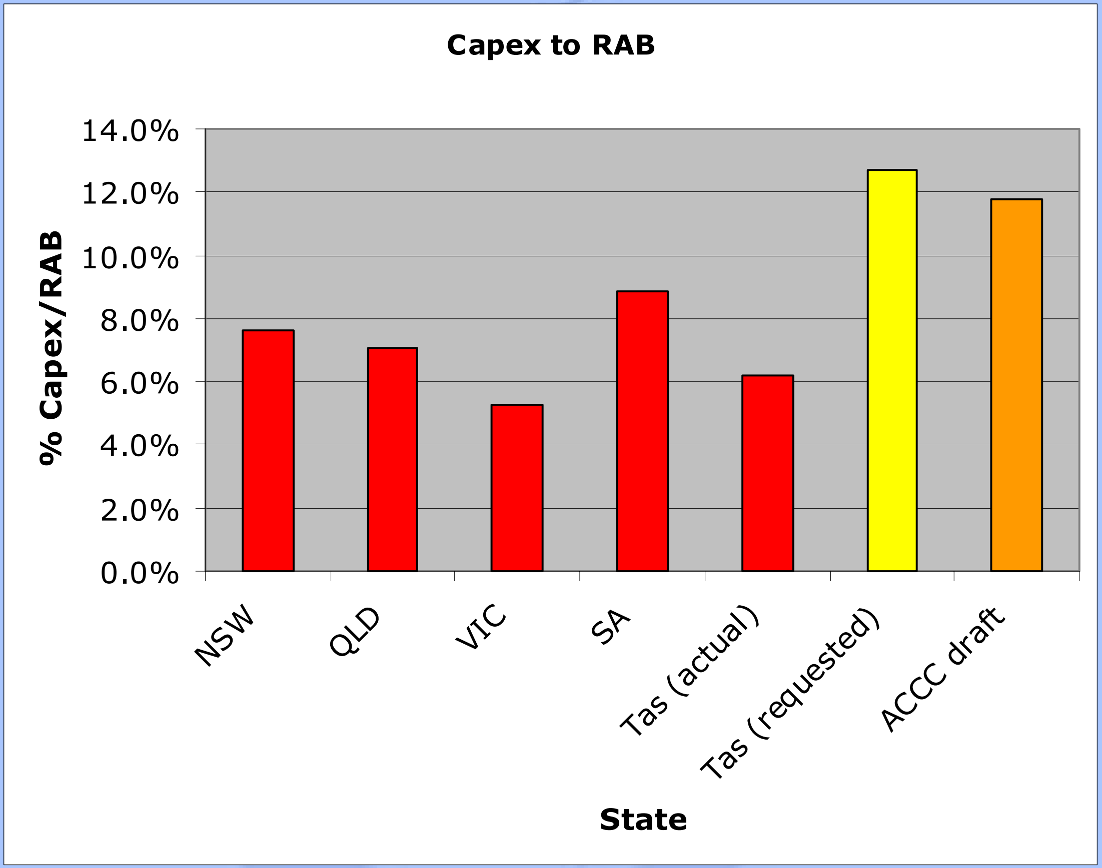
RAB(id)

- ACCC has not justified:
  - Rejection of GHD recommendation to reduce the opening RAB
  - Simply accepted Transend/Treasury's inflated valuation
- Permitting inflated Capex forecasts will amplify the problem
  - Closing RAB will be further inflated
- Who will pay for this?
  - Not the Tasmanian Govt, but Tasmanian customers

Capex

- In 1999, forecast capex for period June 2003 to June 2009 was $167.5M
- Current application forecast capex between January 2004 and June 2009 is $330.8M. An increase of almost 100% (despite a 6 month shorter period)!
- As illustrated previously, Transend has underspent current period capex by over $50M or around 25%. Yet is requesting a 100% increase!
- Alternatives to capex, eg embedded generation or demand management not considered. These alternatives can be more cost efficient than network augmentation.

Transend's Capex to RAB … comparison

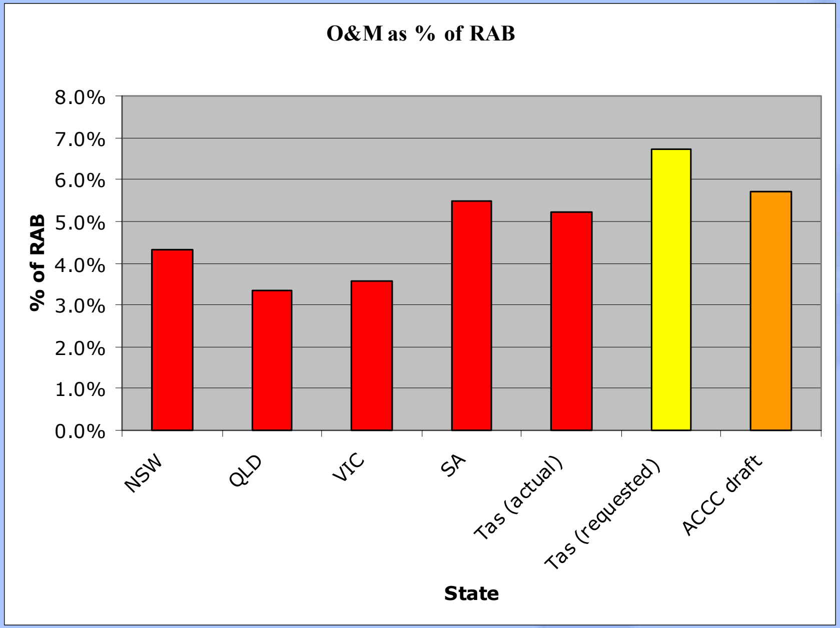


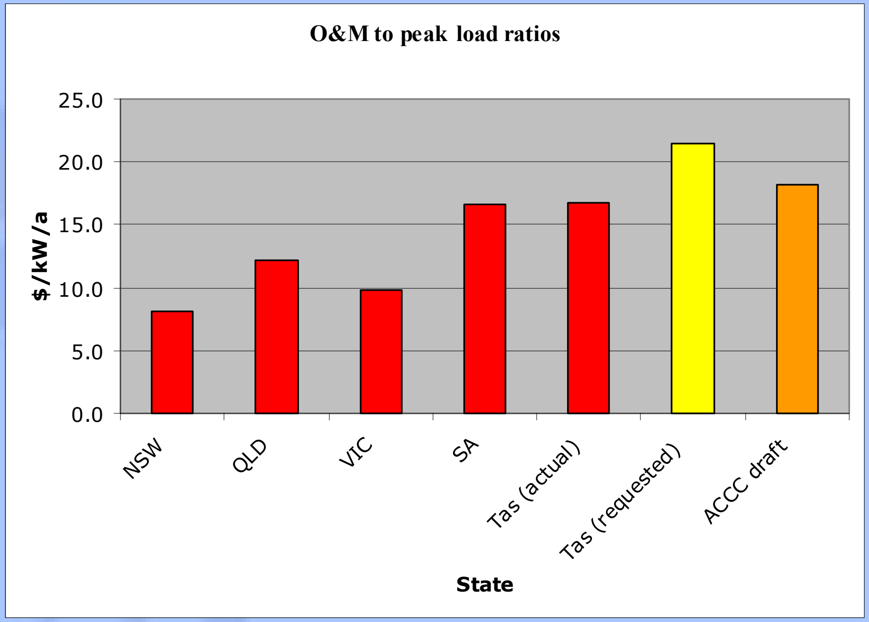
TE's requested Capex takes them from one of the lowest capex/RAB ratios in Australia to the highest ratio. Even though the ACCC's draft reduces the capex somewhat, it still leaves TE at the top of the heap.

Opex

- In 1999, OTTER approved opex amounting to $17.75M (1999/2000), $18.32M (2000/01) and $18.32 (2001/02).
- Current application for opex increases to $33.4M (2004/05), rising to over $36M in the following two years and over $35M in each of the two years after that. This is an increase of almost 100% over the two regulatory periods!
- Has Transend become so grossly inefficient that it needs to more than double its opex?
- Or is it engaging in "strategic behaviour" – an ambit claim?

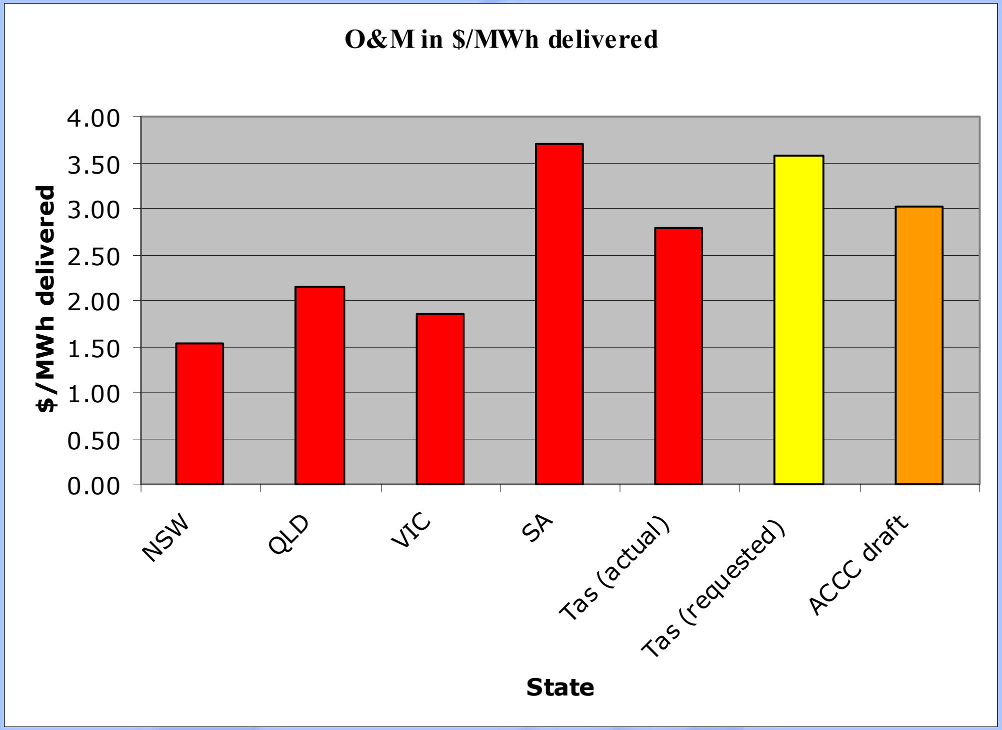
Transend's Opex … comparison





Graphs highlight the fact that TE has been one of the more inefficient TNSPs. The ACCC DD has only made them slightly less inefficient, but still at the bottom of the pile.

Transend's O&M … comparison

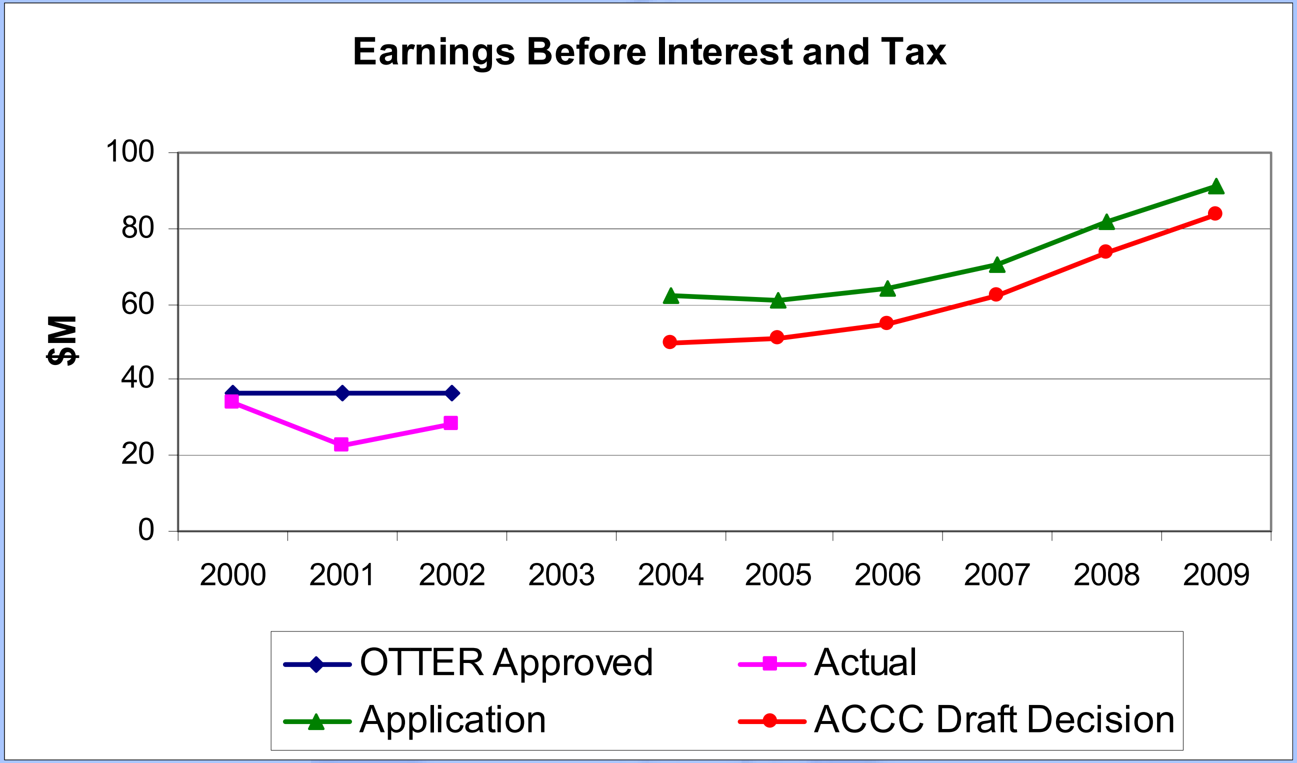


Tasmanian customers cannot accept being saddled with an inefficient TNSP. Incentive regulation meant to make regulated networks more efficient – seems like TE going in opposite direction & DD doing little to prevent this. At this rate, Tasmania will soon have highest O&M cost per MWh of all TNSPs in the NEM, even though network characteristics suggest there is no justification for this.

Drivers of Expenditure

- A number of capex and opex items are directly Basslink or generator (eg wind farms) driven.
- Some provisions for Basslink has already been made in the current regulatory period. Where is the assurance that there is no double dipping on Basslink? Has the ACCC adequately scrutinised this? We can't find any evidence in the Draft and want ACCC to do so before the Final Decision.
- Basslink and new generator capacity driven costs should be borne directly by either Basslink or the generator, not by end use customers, whether nor not the augmentation is a connection asset or embedded within the shared network.
- Costs increases associated with any increased complexity in operating the Tasmanian system due to the commissioning of Basslink, or because of the intermittent nature and non-dispatchable nature of wind farms, should be borne by the causers.

Business Performance

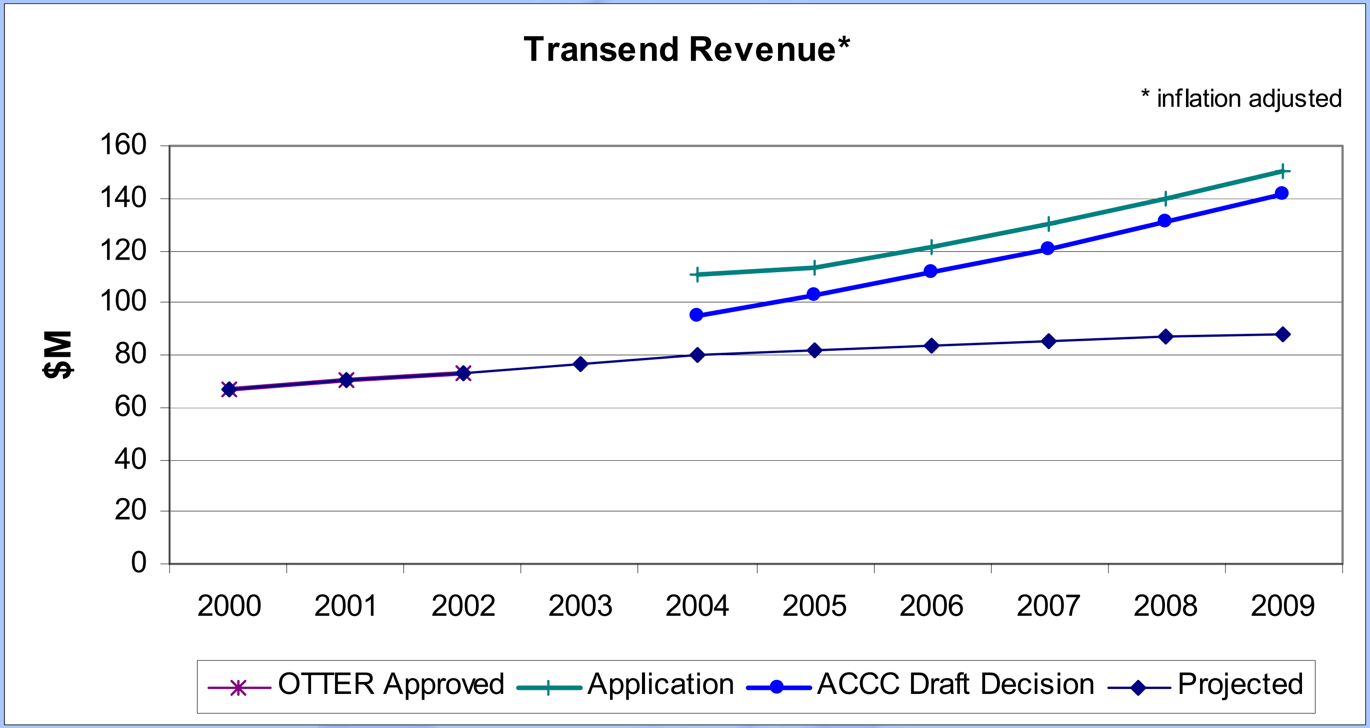


ACCC DD will substantially increase TE's EBIT from current levels and only marginally reduce it from the level sought by the TE application. Given the other problems raised above about the DD we are very concerned about this outcome. It smells like a monopoly rent and it's likely to be one!

Business Performance

- Should Transend achieve the business performance envisaged by the ACCC, its profit before interest and tax will increase by over 74% between 2002 and 2004.
- By the end of the regulatory period in 2008/09, profit before interest and tax will almost triple from the level at 2002!
- The main reason for this huge jump is by Government fiat – the revaluation of its asset base, not efficiency gains!
- Who said low risk (99% of revenue guaranteed), high returns businesses do not exist!

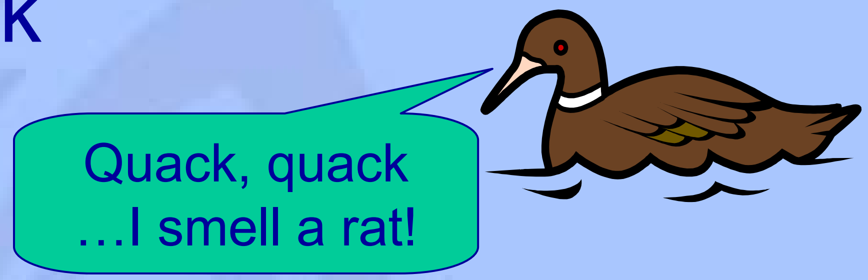
The “Bottom Line” – for Users



TE’s application will result in customers paying 70% more in TUoS by 2009 compared to forward projections of the OTTER approved TUoS. The ACCC’s DD will only reduce this increase to 60% more. No mention of price impacts in ACCC DD (again). Thank you very much ACCC!

EUAA ENERGY USERS ASSOCIATION OF AUSTRALIA

It walks like a duck, it smells like a duck, it quacks like a duck



… It is a duck!

It walks like monopoly rent, it smells like monopoly rent, it quacks like monopoly rent

… it is monopoly rent!

TRANSEND