

# ACCC Draft Decision

## General Issues

### Joint Customer Presentation

Australian Business

Australian Consumers Association

Energy Action Group

Energy Users Association of Australia

National Farmers Federation

# Strategic Regulatory Issues

- Process is unsatisfactory given slippages in key dates, shifting goalposts and inconclusive position on future capex
- Failure of DSoRP to establish robust accounting guidelines

# Technical Consultants' Reports

## Difficulties encountered

- Lateness of the release of the GHD technical reports
- The short time allowed for comments
- Credibility of the technical report ... non-conclusions on many issues

# Weighted Average Cost of Capital

## Market Risk Premium

- UK regulators have all adopted (around) 3.5% based on forward-looking market views (and ‘regulators’ judgments’)
- ACCC has not provided any evidence that the Australian financial market is less efficient than the UK and US markets
- Recent surveys have indicated that Australia MRP is in the region of 4%-5%
- Logical inconsistency of looking forward for all other values used for Capital Asset Pricing Model except MRP

# Weighted Average Cost of Capital

## Equity Beta

- ACCC has acknowledged past generosity by setting equity beta at 1.0
- Acknowledge that an equity beta of 1.0 is biased towards the service provider
- Acknowledges that a equity beta of 1.0 is inconsistent with the market risk profile of a TNSP
- ACCC cites sample market equity beta estimates of 0.16 in September 2003 and 0.18 in December 2003
- Previously indicated that ACCC would rely more on market data, in determining an estimate of equity beta
- Yet Draft Decision still persist in setting equity beta at 1.0

# Weighted Average Cost of Capital

	<b>TransGrid Applic- ation</b>	<b>EA Applic- ation</b>	<b>ACCC DD</b>	<b>Alt 1</b>	<b>Alt 2</b>	<b>Alt 3</b>
<b>Rf</b>	<b>5.01%</b>	<b>5.55%</b>	<b>5.89%</b>	<b>5.89%</b>	<b>5.89%</b>	<b>5.89%</b>
<b><math>\beta_e</math></b>	<b>1.12</b>	<b>1.06</b>	<b>1</b>	<b>1</b>	<b>0.75</b>	<b>0.75</b>
<b>MRP</b>	<b>6%</b>	<b>6%</b>	<b>6%</b>	<b>4.50%</b>	<b>6%</b>	<b>4.5%</b>
<b>Debt margin</b>	<b>1.485%</b>	<b>1.457%</b>	<b>0.87%</b>	<b>0.87%</b>	<b>0.87%</b>	<b>0.87%</b>
<b>Rd</b>	<b>6.50%</b>	<b>7.025</b>	<b>6.76%</b>	<b>6.76%</b>	<b>6.76%</b>	<b>6.76%</b>
<b>Re</b>	<b>11.73%</b>	<b>11.91%</b>	<b>11.89%</b>	<b>10.39%</b>	<b>10.39%</b>	<b>9.27%</b>
<b>E/V</b>	<b>40%</b>	<b>40%</b>	<b>40%</b>	<b>40%</b>	<b>40%</b>	<b>40%</b>
<b>D/V</b>	<b>60%</b>	<b>60%</b>	<b>60%</b>	<b>60%</b>	<b>60%</b>	<b>60%</b>
<b>WACC</b>	<b>8.59%</b>	<b>8.97%</b>	<b>8.8%</b>	<b>8.2%</b>	<b>8.2%</b>	<b>7.8%</b>

# Pass Through

## Terrorist Event

- How is such an event defined?

## Asymmetry of Information and Process

- How would customers know if an event has occurred that would occasion a pass through of reduced costs?
- Are customers allowed to apply for such a pass through even if such details were known?
- TNSPs are unlikely to make such an application.
- How will the ACCC deal with this?

# Pass Through

How would a competitive market treat it?

- ACCC is the competition regulator for a monopoly service provider
- Pass through all cost increases to consumers or would be problematic without a regulator/benefactor
- At least a portion be absorbed by producers?
- Should the ACCC *at least* ask what are the elasticities of demand and supply to determine the incidence of such costs increases?



# Future Capex

## Deferred Capex decision

- Will expect a reasonable consultation process based on updated application before a decision is made
- *Ex ante* process will need to be clarified
  - Need to assess risk to users
  - Coverage - definition of major works. Why not for all capex?
  - Does the ACCC anticipate any other problems?
- Customers would hope to make an input into the reasonableness of updated application
- Will the ACCC subject new application to a rigorous technical review? Critical given *ex ante* approval of capex.

# Simultaneous Reviews

- Proper cost/benefit allocation - inappropriate for consumers in one jurisdiction to pay for benefits outside its jurisdiction
- Assist in benchmarking of cost and performance
- Consistent service standards for all TNSPs
- Consistent with MCE's desire to have a national regulatory standard for transmission.

# Impact on Customers

- ACCC needs to take into consideration the impact of any TUoS increases on customers
- The approval of Transend's increase MAR has resulted in huge increases in the cost of energy to certain Tasmanian consumers
- While the ACCC had estimated that average TUoS increases would amount to about 9%pa, Australian Paper transmission charges have increased by 36% and are now 31% higher than Transend's average cost to supply
- This amounts to over \$860,000 per year.
- We don't want the same to happen in NSW!