

ACCC Draft Decision

General issues

Joint Customer Presentation

Australian Business

Australian Consumers Association

Energy Action Group

Energy Users Association of Australia

National Farmers Federation

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
- Cite sample market equity beta estimates of 0.16 in September 2003 and 0.18 in December 2003 [where does this come from; need to explain it to me]
- 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

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

Opex

Regulatory Gaming

- should note the pattern of opex over the five year regulatory period.
 - immediately after a regulatory reset, opex or opex growth is significantly lower than that applied for and even approved by the regulators.
 - in the last two years, the opex spend seems to invariably increase to justify the higher expected expenditure in the next regulatory period.
 - The ACCC should be well aware of this type of regulatory gaming by now and be taking steps to prevent it.

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!

Strategic Regulatory Issues

- ACCC admits TransGrid has a pivotal role in the NEM but it is difficult to see how DD actually recognises this fact
- Process is unsatisfactory given slippages in key dates, shifting goalposts and inconclusive position on future capex
- Failure of DSoRP to establish robust accounting guidelines
- TransGrid's 'obligations' to NSW Government