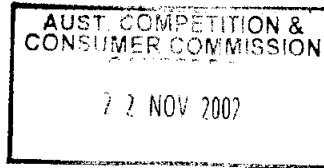


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**Queensland  
Government**

**Treasury  
Office of Energy**



19 NOV 2002

Mr S Roberts  
Acting General Manager  
Regulatory Affairs - Electricity  
Australian Competition and Consumer Commission  
PO Box 1199  
DICKSON ACT 2602

**F A X E D**

20 NOV 2002

Dear Mr Roberts

**Victorian Transmission Network Revenue Cap - Draft Decision**

I refer to the Draft Decision on the Victorian Transmission Network Revenue Cap (Draft Decision) released by the ACCC to interested parties for comment.

Queensland Treasury has major concerns regarding the Draft Decision.

Treasury is concerned that the Draft Decision establishes a separate revenue regime for VENCORP, under which the efficiency incentives that are appropriately imposed on other transmission service providers (TNSPs) in the National Electricity Market (NEM) are absent, creating a lower investment threshold in Victoria than elsewhere in the NEM.

Treasury recognises that there are differences between Victoria and the other NEM jurisdictions with respect to the commercial frameworks under which the transmission entities operate. However, different legal instructions should not be a basis for establishing different regulatory and investment thresholds across the NEM. Regulatory consistency must be a cornerstone of the NEM governance framework. It cannot be said that the structure of the VENCORP model ensures that costs and investment are efficiently incurred, warranting differentiation in the calculation of maximum allowable revenue (MAR).

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In particular:

- VENCORP suggests that it should not face optimisation risk as its application of the Regulatory Test, scrutiny by its Board and the acquisition of services on a competitive basis, ensure that investment decisions are efficiently made. Similar processes are however, employed by all TNSPs during the augmentation and investment process. To this extent, VENCORP's processes are not materially distinct.
- The risks associated with optimisation primarily relate to the way in which the augmentation is specified, rather than the 'cost' incurred in procuring the service. While a competitive tender process may result in the service being procured for the lowest cost, it does not guarantee that the service has been appropriately specified to ensure that optimisation does not occur. As with other TNSPs, the specification function rests with VENCORP and is not subject to a competitive process.
- It is suggested that VENCORP's 'not-for-profit' structure removes any incentive for gaming the investment process and that therefore, unlike other TNSPs who must bear optimisation and cost of capital risk, VENCORP may pass costs associated with these risks through to its customers.

Queensland Treasury remains to be convinced that this arrangement provides sufficient incentives for efficient transmission investment.

- VENCORP's capital structure is used as a justification for permitting the pass-through of optimisation and capital costs to customers. Treasury is concerned that this approach may encourage the under-capitalisation of transmission entities in an effort to allow the pass-through of regulatory risks, rather than addressing the more fundamental issue of whether the transmission entity is appropriately structured to be able to meet its regulatory requirements.
- It is totally unjustified for the ACCC to be championing a truly national market on one hand but implementing inconsistent regulatory arrangements across NEM jurisdictions on the other.

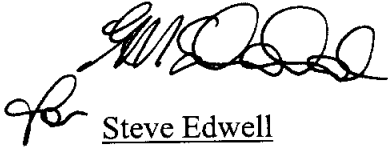
Treasury does not believe that the commercial arrangements under which VENCORP operates justifies a material departure from the efficiency controls applied to other TNSPs in the NEM or inequitable regulatory treatment between TNSPs through the creation of a lower investment threshold in one jurisdiction.

Indeed, if the ACCC considers that the additional investment hurdle of optimisation should be abolished such a decision should not be made on the basis of creating additional investment certainly regarding transmission development, and should apply to all TNSPs throughout the NEM. Of all the jurisdictions in the NEM, it is arguable that Queensland relies most on a sound transmission framework. Queensland should not be disadvantaged relative to Victoria in respect of transmission regulatory arrangements. Treasury is totally opposed to the draft decision on this basis.

We would welcome the opportunity to discuss our comments in greater detail should you have any queries.

Please contact me on (07) 3225 8315 should you wish to discuss our comments in any way.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Steve Edwell', with a large, stylized flourish extending to the left.

Steve Edwell  
A/Executive Director  
Office of Energy