



Comments on the ACCC's Draft Decisions for TransGrid

Stephen Clark – Friday 18 June 2004



TRANSEND

Focus of presentation

- No comment on whether the proposed revenue outcome is right or wrong
 - Must rely on expert advice and analysis
- Bigger picture issues
 - How is the regulatory framework being applied?
 - What are the implications?

Is the regulatory framework settled?

- No!
- Draft Statement of Regulatory Principles – May 1999
 - Coherent, logical and internally consistent
- Policy has “developed in the light of experience”
- But – inconsistent approach
 - Equity raising costs
 - Future efficiency gains
 - Rewards for past efficiencies – carryover mechanism not defined
 - Approach to capital expenditure and “clawback”

...In the future

- In 2009 – TransGrid, EA and Transend will all be reviewed at the same time
- BUT – different frameworks will apply
 - TransGrid and EA - ex ante cap as agreed
 - Transend - ex post review or clawback?
 - Others - a different “finalised” framework?
 - Other “policy developments” – threat on debt raising costs and equity beta?
- Essential to explain decisions and manage transition to stable regulatory environment

Specific concerns with TransGrid draft decision

- 2% efficiency factor on opex relies on precedent of a Transend review
 - But – no basis for Transend decision
 - Inconsistent with earlier decisions
- Ex post review of capital expenditure imposes an arbitrary penalty of “disallowed return during construction”
 - Arbitrary penalties not consistent with good regulatory practice
 - ACCC should explain how the penalty has been calculated

Implications of ex post review?

- MetroGrid – ACCC allows only 84 cents in the \$
- Free lunch for customers?
 - No!
 - Encourages minimisation of capex – not optimisation
 - Creates risk for other TNSPs which will discourage investment

Concluding comments

- Regulatory framework is far from settled
- Future looks confusing and risky
 - Action needed now to improve transparency and consistency
- Customers may support 84 cents in the \$ - but need to think medium/long term