

30 May 2002

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Mr Michael Rawstron
General Manager
Regulatory Affairs – Electricity
Australian Competition and Consumer Commission
PO Box 1199
DICKSON ACT 2602

Dear Michael,

ElectraNet SA application for a revenue cap

AGL would like to comment on the application by ElectraNet SA for a regulated revenue cap for the period 2003-2008, dated 16 April.

The application fails to provide any comparison of the requested Maximum Allowable Revenues (MAR) with ElectraNet SA's current revenues under the Electricity Pricing Order (EPO). It is therefore very difficult to assess the application against Code principles and objectives such as the following:

- 6.1.1(c)(3): price stability
- 6.2.2(g): reasonable recognition of pre-existing ... revenue paths and prices
- 6.2.3(d)(5): provide reasonable certainty and consistency over time of the outcomes of regulatory processes ...

Reference to public information about ElectraNet SA's current revenues suggests, however, that the requested MAR represent a very substantial increase on the revenues that it is allowed under the EPO. The proposed revenue profile, while 'smoothed' across the period from 2003 to 2008, gives no consideration to the impact over 2002 to 2003. It would appear therefore that little weight has been given to the above Code provisions.

The increase is requested by ElectraNet SA based on errors in the previous determination and restrictions on their activities in the period up to the leasing of the assets in October 2000.

The increase in revenue requirements is based on:

- an increased asset valuation
- a higher return on assets
- increased capital and operational expenditure

It is difficult to comment on the asset valuation and the rate of return without detailed analysis and more information than is provided in the application but it would appear that the ElectraNet SA request is not consistent with recent regulatory decisions for similar assets. AGL urges the ACCC to adopt an approach to this determination that is consistent with earlier decisions in this area.



ElectraNet SA argues that it needs to allow for significant capital works due to the age of its assets, load growth, interconnection and new generation. AGL would note, however, that TransGrid and SPI Powernet would have similar aged assets but do not see the need for such an increase. In the section dealing with appropriate levels of returns ElectraNet SA states that its assets have a long useful life remaining while in the capital and operation expenditure sections they argue that there is an urgent need to replace them. These sections appear inconsistent.

The cost of any transmission augmentation necessary to allow connection of new generation is chargeable to the proponents of that generation under clause 5.5 of the Code. This ensures that generators pay for the assets that they will directly benefit from. This approach has been reinforced by recent changes to the Code which go further and require generators to be charged for new general network assets that benefit them – the beneficiary pays approach. AGL would therefore consider that no allowance for expenditure to support generator connection should be made in the AARR and that ElectraNet SA should use the provisions of the Code to recover the costs of those augmentations from generators.

ElectraNet SA also claims that the level of operational expenditure under the EPO was unsustainably low. The SA Independent Industry Regulator reported¹, however, that ElectraNet SA spent less in this area than the base amount in the EPO and that this underspend contributed to an award of \$1.0 million under the performance incentive scheme. The actions of ElectraNet SA in 2000/01 appear inconsistent with their current claims.

AGL therefore urges the ACCC to examine the application carefully and balance the needs of ElectraNet SA for sufficient revenue to manage its business with the needs of the community for cost-effective services.

If you have any questions regarding the above matters, please contact Alex Cruickshank, Manager NEM Development on (03) 9201 7694 or e-mail acruicks@agl.com.au.

Yours sincerely,

Unsigned electronic copy

Mark Travill
Acting General Manager Wholesale Energy

¹ Performance of Regulated Electricity Businesses in SA - 2000/2001 - Nov 2001, page 69

