



The Australian Gas Light Company
ABN 95 052 167 405

North Sydney
AGL Centre, 111 Pacific Highway
North Sydney NSW 2060
Locked Bag 944
North Sydney NSW 2059

Telephone 02 9922 2585
Facsimile 02 9957 3871

29 October 2004

Mr Sebastian Roberts
General Manager
Regulatory Affairs - Electricity
Australian Competition and Consumer Commission
PO Box 1199
Dickson ACT 2602

By email to electricity.group@accc.gov.au

Dear Mr Roberts,

Draft Statement of Regulatory Principles for Transmission Revenues

AGL supports the general thrust of the draft Statement of Regulatory Principles for Transmission Revenue (SRP), published by the ACCC on 18 August 2004. We particularly support the overarching principles of improving investment outcomes through greater income certainty, improved assessment of investments and better incentives. Comments on specific aspects of the principles are noted below.

AGL notes that the SRP is designed for the meshed components of an interlinked electricity transmission network. A number of the approaches are designed to respond to particular characteristics of electricity transmission networks and are unlikely to be appropriate for other regulated infrastructure.

Asset valuation

AGL agrees that once an investment or augmentation has been deemed prudent by the regulatory test (or initial inclusion in the asset base) it should not be revalued. This necessary stability will assist investors. The approach does, however, require that the Regulatory Test is effective in both promoting necessary investment and avoiding unnecessary investment. We are aware that the ACCC has just completed revising its regulatory test and refer the Commission to our comments on that report. AGL remains concerned that most intra-regional investments, in the main, are the result of "reliability augmentations". We are concerned that few investments are able to qualify under the "net market benefit" arm of the test.



Capex

AGL supports the approach to of setting a Capex level up front, based on projected demand, and allowing sensible variations on an agreed basis. Linking capital expenditure to demand growth will allow appropriate investment while retaining some flexibility. It does, however, require fairly sophisticated modelling which may, in itself, be contentious but such an approach is required to allow for the unpredictable demand growth in some regions.

Allowing specific programmes to be optional depending on circumstances also seems a pragmatic response to the difficulty of long term planning in the transmission network.

Opex

AGL notes that there is little change to the arrangements for operational expenditure from the previous SRP. We support the additional five years of carry forward for under and overspends, but we are unsure that the mechanism proposed in section 6.4 will be effective.

Incentives for prudent investment

AGL welcomes the ACCC recognition that appropriate incentives is necessary for investment to occur. The ability to roll forward savings (and over-runs) in expenditure is an essential component of the incentive regime. We are concerned, however, with the delay in establishing the other essential requirement, which is the service standards regime. We consider it essential that the service standards applied to TNSPs include as soon as possible a measure of the market impacts of their operations.

WACC

AGL believes that the level of WACC almost needs to be considered part of the incentive scheme for network investments. Investments in large organisations have to compete with a range of projects. The level of WACC allowed in regulated investments is crucial to ensuring an appropriate return on investment to attract scarce funds.

AGL supports the use of the capital asset pricing model for establishing the WACC, with the caveat above. We also support a Beta of one, given the lack of firm information on a better number.

While AGL supports the up-front declaration of the risk factors in the SRP, we consider that the items in sections 7.7 to 7.10 may be company specific and will need to be appropriately adjusted for specific determinations.

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

Yours sincerely

Robert Wiles
General Manager Regulation and Policy

