

17 April 2003

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

Dear Mr Roberts

TRANSEND REVENUE APPLICATION

Thank you for the opportunity to provide comments on the Transend revenue application.

Aurora Energy, as the Tasmanian distributor and retailer of electricity, finds itself in a difficult situation in providing comments, as we have two competing interests:

- the need for a strong transmission network to support our own initiatives in improving service to customers via the distribution network; and
- the need to ensure that end-users do not suffer unacceptable price shocks, noting that Tasmania has a higher than average level of customers receiving some manner of financial assistance.

Overall Comments

Aurora's view is that price reset objectives should be based around:

- Tasmanian customers getting improved quality and reliability of supply at acceptable cost;
- Removal of monopoly rents; and

- A viable long term business for the entities.

This submission focuses on the first of these objectives. Tasmanian customers have shown a low tolerance for large increases in price, despite reliability improvement promises – economic conditions in Tasmania are such that large proportions of customers rely on some measure of government assistance. A copy of our research on this matter has been forwarded to you separately.

Aurora's pricing submission to the Office of the Tasmanian Energy Regulator (OTTER) is premised on an integrated set of asset management plans delivering improved services to customers. This can only be achieved through improvements in both the transmission *and* distribution systems. Aurora believes that ACCC and OTTER need to balance the reliability improvements of Transend and Aurora, and the timeframes of expenditure on improvements to ensure the customer gets the best value for any increase in price.

We note that the Transend proposal is for a total increase in TUoS from \$70 million to \$110 million in 2004/05, and to \$130 million in 2008/09. This indicates an overall increase of about 10% to be passed on in customer prices over the period (\$60 million over \$600 million). This is well outside the ability to pay parameters from our customer research.

Aurora believes a fundamental principle of any incentive regime is that reward should be tied to service improvements.

Asset Value

Transend's closing asset value from the previous OTTER determination was \$475 million, assuming a capital investment of around \$150 million between 2000 - 2003. Transend spent less than this amount each year of the determination and therefore the \$475 million should be reduced accordingly.

Transend's proposal is based on the Tasmanian Treasurer's valuation of \$604 million, allowing for rolling-forward of capital expenditure to December 2003. This is a significant increase.

Aurora notes that the proposed increase in asset valuation will result in a substantial increase in prices to customers.

Capital Expense

OTTER in 1998 allowed Transend around \$50 million per year based on an aging asset base. As noted above, Transend has not been able to spend this amount.

The Transend proposal is for approximately \$80 million per year, dropping to \$40 million toward 2008.

Two issues are listed as being the main causes – the National Electricity Market (NEM) and aging assets. It is difficult to distinguish between the two in the proposal.

NEM expenditure is based on competition in generation and retail providing benefits to customers that outweigh the costs. ACCC has already worked on this as part of Tasmania's case for joining the NEM. There should be some demonstration that NEM related costs will be outweighed by the benefits.

The balance of the expenditure should see improved reliability and quality of supply for the spend. There must be a clear balance between customer service value delivered and price.

Operating Expense

The previous determination allowed around Transend \$17 million per year. This compares with the Transend proposal for around \$35 million per year.

Again there are two issues – NEM and aging assets.

Aurora's position is that an operation and maintenance (O&M) allowance should be driven by customer value. There is insufficient information in Transend's proposal to determine any linkage between the O&M spend and the level of service provided or the customer value delivered.

Summary

Aurora makes the following comments in relation to the Transend proposal:

- The final prices to customers will be significantly increased based on the AARR proposed by Transend. Our research shows that such a price increase is not within the tolerance levels of Tasmanian customers.
- An incentive scheme on transmission revenues should be based on improved performance in service, reliability or quality of supply that is valued by customers.
- Some transparency between the costs associated with the introduction of the NEM and the ongoing improvement of the system needs to be provided.

Once again, thank you for the opportunity to provide comment. Should you require more information on any of the matters discussed above, please contact me.

Yours sincerely

Wim de Puit
Manager Regulation and Compliance