

22 July 2003

Mr Sebastian Roberts  
Acting General Manager  
Regulatory Affairs – Electricity ACCC  
PO Box 1199  
Dickson ACT 2602

Dear Mr Roberts,

### **TRANSEND REVENUE APPLICATION**

Thankyou for the opportunity to comment against the GHD report, 'Transend Regulatory Review - Capital Expenditure and Asset Base Operational Expenditure and Service Standards' dated June 2003.

Please find below Aurora's response to GHD's report, including some references to the Transend Supplementary Submission dated July 2003.

The ACCC when undertaking a review of Transend's revenue requirements undertakes the review in accordance with the principles of the National Electricity Code (NEC). Section 6 of the NEC outlines several areas which we ask that the ACCC be cognisant of when assessing Transend's application. These are;

- facilitate a commercial environment which is transparent and stable, and which does not discriminate between users of network services;
- reasonable recognition of pre-existing policies of governments regarding transmission asset values, revenue paths and prices;
- reasonable regulatory accountability through transparency and public disclosure of regulatory processes and the basis of regulatory decisions; and
- price stability.

### **Aurora's Observations**

Aurora acknowledges GHD's assessment of the impact of natural gas and other competitive pressures on Transend's business. The introduction of natural gas to Tasmania will have a significant effect on both Transend and Aurora, as electricity load is replaced by natural gas.

As Tasmania enters the NEM, Transend and all industry participants will be expected to behave in a professional manner, demonstrating good business acumen.

GHD noted that ;

“ ...the changes are intended to increase competitive pressure on all market participants and provide benefits to customers in terms of reduced net prices for energy services and/or increased service performance: these aspects must also be considered by Transend in its operations and planning. “

and;

“Consideration in operations and planning of benefits to customers in terms of reduced prices for energy services and/or increased service performance.”

Aurora’s view in its original submission was 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.

#### Impacts on Customer Price

It is important that the ACCC considers Transend’s Revenue Request in light of their planned performance improvements, and the impact that this will have on customer prices.

Transend noted in their supplementary submission that it would be imprudent to base the revenue requirements of the transmission business on the objective of end customer prices. Aurora disagrees with this proposition and submits that it would be imprudent for the ACCC and Transend to exclude the price impact on customers.

#### Service Improvements

In relation to GHD’s review of the Transend application, it is important to note that the research undertaken by Aurora on service and reliability. This research dealt with the end price that the customer would pay for service improvements expressed as percentage increase of their account. Hence it includes both distribution and transmission, service and reliability.

Transend have noted in their Supplementary Submission that this research reflected improvements in the Distribution Network only. This is incorrect.

Aurora has previously articulated the ‘tolerance’ of Tasmanian customers to pay for service and reliability improvements, and provided a copy of the research to the ACCC. Tasmanian customers have shown a low tolerance for large increases in price, despite reliability improvements. Economic conditions in Tasmania are such that large proportions of customers rely on some measure of government assistance.

The GHD report clearly indicates that Transend have difficulty articulating the levels of service improvement that they are offering. Further Transend in their Supplementary

Submission advise that 'service improvement is not a critical reason for the required increase in transmission revenue'.

Aurora's view is that the 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.

This consideration is clearly within the scope of the ACCC powers.

Aurora advises that without a clear indication of the service level improvements that customers will receive, Aurora can not support the quantum of Transend's bid.

Without this information Aurora can only view the requests as being somewhat arbitrary in nature.

In Transend's supplementary submission they suggest that the total impact on customers of their bid is in the order of CPI+0.8 %. This reference to the OTTER draft pricing determination is out of context.

The OTTER after factoring in a reduction to the allowances for Aurora Retail and Distribution, and an increase in the allowances for Transend modelled the impact on tariff customers. It does not include the impact on contract customers. The impact on some contract customers will be substantial.

### Optic Fibre Project

GHD at Section 6.8.2 comment on Transend's proposed expenditure of \$36.1M on optical fibre earth wires. Transend have advised that a large portion of this expenditure is to comply with the Tasmanian Electricity Code (TEC). The TEC at sections 4.10.2 and 4.10.3 does not specify the need for communications redundancy to all stations, instead it is required only where specified by the System Controller or where it links to Control Centre. It also does not specify the need for optic fibre cable.

This project appears to be over specified and Aurora would like to see more detail as to the need for an optic fibre network to be funded by customers.

### **Summary**

In summary Aurora would like to re-iterate several points it has made previously.

The final prices to customers will be significantly increased based on the Transend submission and 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. If you require any additional information please feel free to contact me on (03) 62373508.

Yours sincerely,

Darren Hill  
Retail Regulatory Manager