

ELECTRICITY CONSUMERS COALITION OF SA

59 Hallett Road
Burnside, SA, 5066
Ph: 0417 397 056
Email: davidheadberry@bigpond.com

2 December 2002

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

By email: sebastian.roberts@acc.gov.au

Dear Sebastian,

ElectraNet SA Easement Value for Final Revenue Cap Decision

We noted with interest the latest submission (18 November 2002) from ElectraNet, posted on the ACCC website 27 November 2002.

The submission fails to address some fundamental issues with regard to its approach to easement valuation.

1. It should be remembered that when the value of easements was set by a previous SA government, it had the power to set a figure at what ever level it wished. It advised subsequent to the time that the value for easements was set that it could have used a different valuation method, but we should remember that it did not do so, and ultimately decided to include a value for easements based on historical and recorded costs. It could even have set a figure not derived from any specific methodology. What needs to be remembered is that the jurisdiction did not do any else other than set the value of easements at \$3.1 million. Since that time, the assets of ElectraNet have effectively passed to private enterprise, and that the regulatory oversight has passed to the ACCC. The ACCC should address the issues on their merits, and not on what “might have been”.
2. ElectraNet implies that the ACCC should pay more attention to submissions from the current SA Government than it does to any other submission. In its role as a “continuing entity” the ACCC should recognise and accept that the SA Government set the component of the RAB for easement value as \$3.1 million and then it proceeded to effectively sell the assets with this same easement value included in the financial books of ElectraNet. However in its current role as “just another party to the debate”, the SA Government may have a view as to how the value for easements might be set, but this view must be argued (just as is required by any other submitter to the debate), be based on the facts as they are, and not be used to influence the independent regulator on “what might have been”.
3. The ACCC was quite clear in its draft decision that it would follow the approach of what has been recorded as being the basis for valuing easements. Whilst consumers have commented on this particular approach and its application, ElectraNet’s recent attempt to prorate an easement value from an allowance made

for another transmission company (PowerNet) does not follow any of the principles noted by the ACCC. That such an approach was supposedly proposed by the SA Government should not influence the ACCC.

4. ElectraNet continues to aver that the allowance for easements of \$3.1 million is neither fair nor reasonable. The RAB set by the jurisdiction included only \$3.1 million for easements. ElectraNet was effectively sold to the present owners with a book value for easements of \$3.1 million. The new owners paid for effective ownership of the assets an amount of just over 120% of RAB. The more common premium for purchase of regulatory assets is 140-160% of RAB, which clearly implies that the new owners have not paid any premium for the assets based on potential revaluation of the easements.
5. ElectraNet avers that because the jurisdiction had insufficient time to set an easement value based on other methodology, that this constitutes justification for using a different easement valuation methodology subsequent to the effective sale of the assets. In its letter, ElectraNet states that a “fair and reasonable value for historic easement ... costs” is now \$27.5 million. The original owners of the assets (the people of South Australia) would argue that a fair and reasonable cost for the easements is the value placed on them at the time of the effective sale, and the amount included in the sale price.
6. ElectraNet continues to argue that the ACCC has the discretion to vary the value of easements. Consumers have argued that the ACCC does not have this right, as the RAB was set by the jurisdiction prior to the ACCC being granted responsibility for regulatory oversight for the SA transmission system. Further the jurisdiction set the RAB with an amount of \$3.1 million already included in the RAB. The ACCC has assumed that the RAB requires to be increased to allow for the inclusion of this amount – effectively granting ElectraNet an additional \$3.1 million.

We trust these additional comments assist you in your review of ElectraNet’s recent claims to increase its RAB through revaluing easements.

Yours faithfully

Rod Davidson
Chairman, ECCSA