

ACCC's TransGrid Supplementary Draft Decision – Public Forum

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Major issues for customers

- Hasty supplementary draft decision
- Incentives of the *ex-ante* regime
- *Ex-ante* allowance and excluded capex
- Asymmetry of re-opening mechanism
- Trade off between replacement capex and opex
- Demand side response
- Pricing Impact

Hasty supplementary draft decision

- Lack of time to review PB Associates TransGrid Report
- How seriously did ACCC really consider submissions?
- ACCC did not respond to many of our questions and issues raised, especially
 - Incentive to over-estimate *ex-ante* capex
 - Sharing of efficiency benefits
 - Demand side response
- These are all critical to transmission charges
 - Which end users pay!

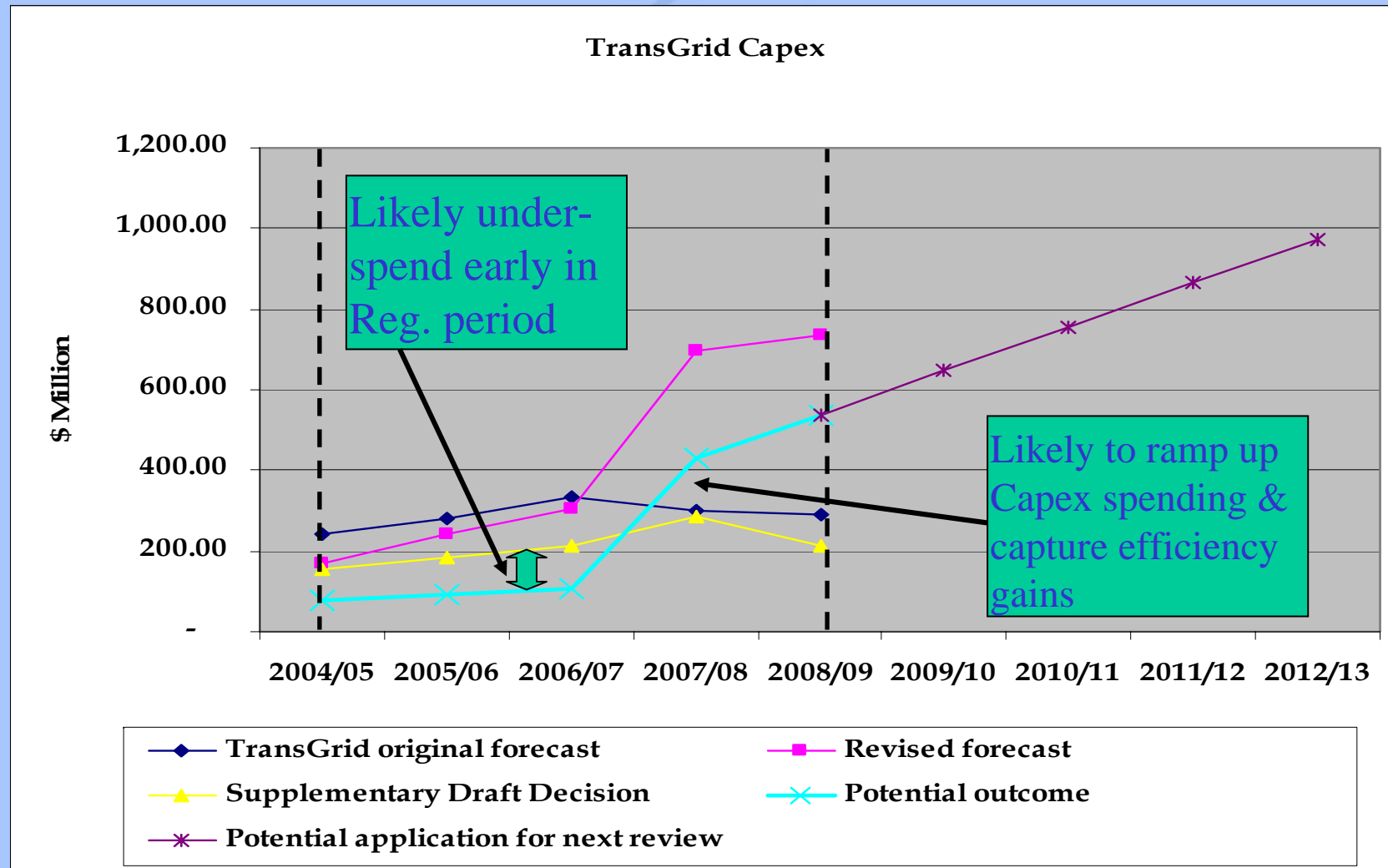
Hasty supplementary draft decision

- 26-Sep-03 TransGrid's original application
- 4-May-04 ACCC Draft Decision – **7 months**
- 18-Nov-04 TransGrid submitted revised capex application – **6.5 months**
- 27-Jan-05 PB Associates report released – **2 months**
- 22-Feb-05 Submissions on revised capex application and PB report – **15 days**
- 3-Mar-05 Supplementary Draft Decision – **10 days**
- 18-Mar-05 Public Forum – **15 days**
- 24-Mar-05 Submission on Supplementary Draft Decision – **6 days**

Incentives of the *ex-ante* regime

- Cap or allowance – ACCC hedging its bets?
- TNSPs retain the returns to any **under-spend** during the 5 year period
- But, **over-spending** will simply be rolled into the asset base without any review
- Likely under-spend during the first three years of the regulatory period
- Overspend in the remaining years when the penalty for over-spending is limited
- This works to the disadvantage of end users - Why?

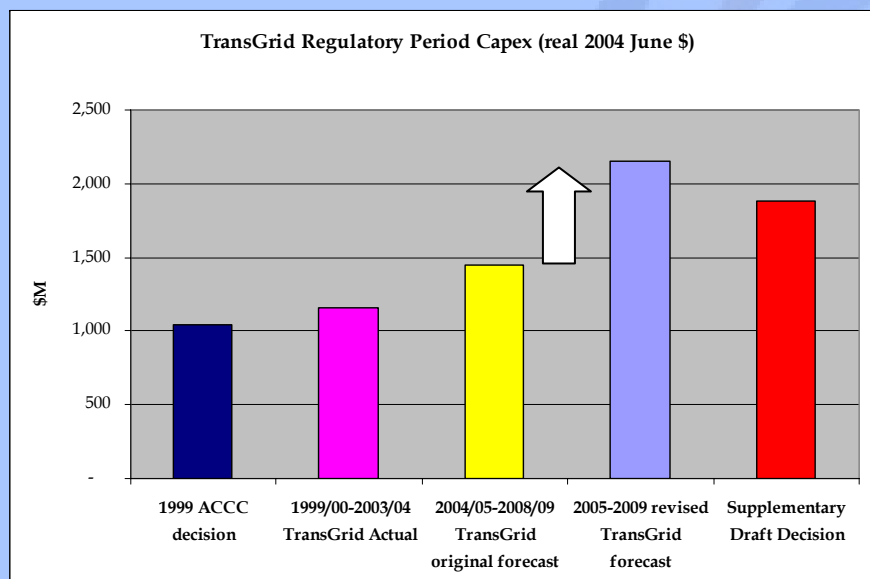
Potential outcome of incentives



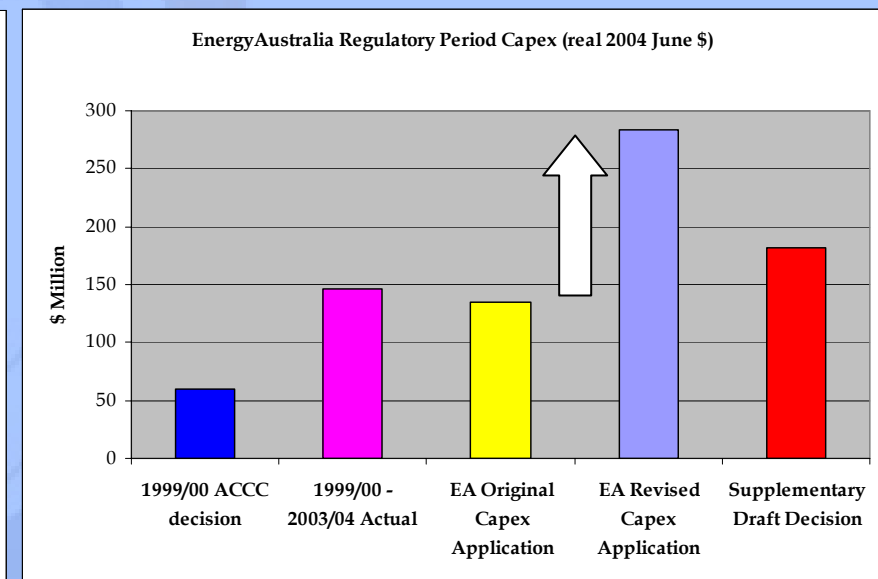
Ex-ante allowance and excluded capex

Why the massive increase in capex from the original forecast?

TransGrid



EnergyAustralia



Ex-ante allowance and excluded capex

- Has demand increased to justify additional capex?
- Can customers expect that reliability will be improved ... if so, what penalties if improvements do not eventuate?
- Alternatively, is it related to uncertainty of the *ex-ante* regime?
 - What uncertainty – overspending is now rolled into asset base
 - No optimising of capex

Ex-ante allowance and excluded capex

- Given the uncertainty of excluded capex and the fact that overspending will be rolled in, will the ACCC consider sharing the benefits of efficiency gains with customers?
- What is at stake?
 - TransGrid – \$300M-\$400M of excluded capex included in revenue allowance
 - EA – \$37 million of excluded capex included in revenue allowance
- Impact on TUoS? – ACCC included these expenditures in Revenue Allowance

Trade off between replacement capex and opex

“As assets reach the end of their useful life the level of operating expenditure required to maintain them increases.”

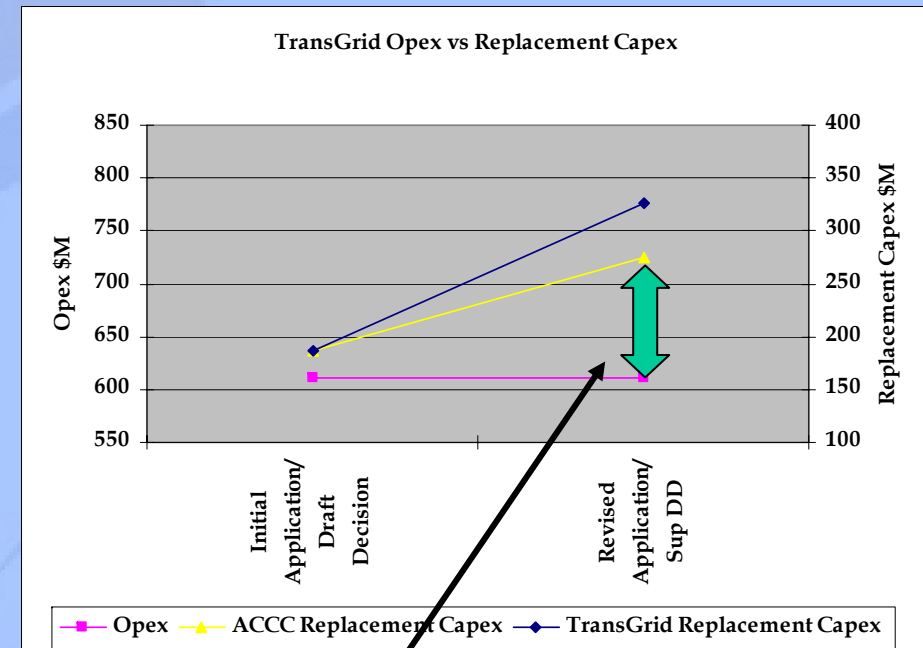
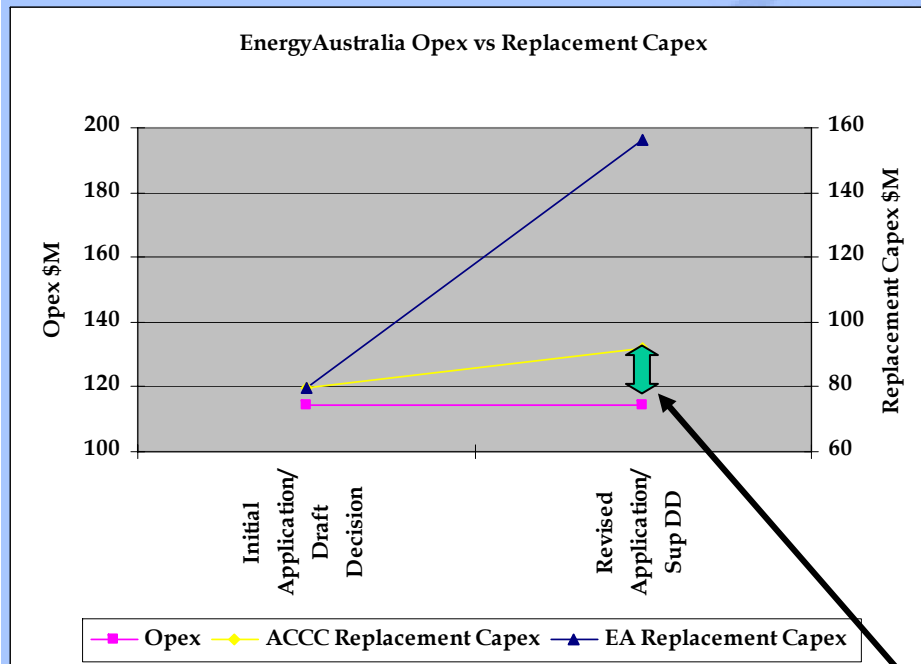
TransGrid

- By the same token, large increases in Capex should normally depress the need for opex
- Neither Transgrid, EnergyAustralia nor ACCC has explained why this does not hold true here – not good enough
- Similarly, EnergyAustralia stated that initially there will be a trade off between replacement capital and operating expenses

Trade off between replacement capex and opex

- ACCC have allowed TransGrid's replacement costs to increased by some \$90 million above original application
- While EnergyAustralia's replacement capex has increased by \$12 million above original application
- How much reduction in opex can customers expect?

Trade off between replacement capex and opex



Why hasn't opex reduced when capex has increased by so much? What do Customers receive for this widening gap?

Trade off between replacement capex and opex

- ACCC has indicated that the level of opex will be reviewed for the final decision
 - This is unacceptable
 - No opportunity will be accorded to customer for comment
 - Urge the ACCC to release another draft decision on the opex
- Regrettable that the PB ToR did not include a review of opex
- ACCC should benchmark replacement capex

Demand Side Management

- Capital investments in network assets can be a very inefficient and costly means of meeting peak demand growth
- Low capacity demand management options can defer investment for several years leading to significant cost savings and reduce the risk of stranded assets and surplus capacity

Demand Side Management

- IPART determination promotes demand management in NSW distribution network
- TransGrid and EnergyAustralia both claim that they encourage demand management and embedded generation responses
 - But there is no evidence of this in revised capex proposals or ACCC Supplementary Draft Determination?
- ACCC should provide incentives to TransGrid and EnergyAustralia

Demand Side Management

- EUAA trial enabled customers to participate in DM by responding to high pool prices and network congestion by bidding to shed load
- Trial results suggest that demand management could release up to \$2 billion a year in value – or around 10% of retail turnover in the NEM
- Trial showed that network DM is feasible and that customers do not differentiate it from energy market
 - Lack of regulatory incentives was the real problem
 - Aggregation capacity of trial facility increases the likelihood of a local DM capacity

Demand Side Management

- Energy Response established as a result of EUAA Trial
- Energy Response has already collect over 40MW of DSR
- Urge the ACCC to provide an incentive for DM and require TransGrid and EnergyAustralia to substantiate their support for DM
- Energy Response can assist to achieve DSM where it is needed

Price Impact

- We welcome the inclusion of the impact of the decision on customer TUoS charges
- But, TUoS a small (but still important component of total bill) and urge the ACCC to assess the total impact of its decision on customers' bills
 - Some of the ACCC's decisions may have wider implications including impacting on the energy market
 - This can be quite important