AUSTRALIAN ENERGY REGULATOR REVIEW OF POWERLINK REVENUE PROPOSAL 2007/08 TO 2011/12

This submission was prepared by the Energy Users' Association of Australia with assistance from McLennan Magasanik Associates and Sinclair Knight Merz. Funding assistance was provided by the National Consumers Electricity Advocacy Panel. All views expressed are those of the EUAA.

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

The Energy Users Association of Australia (EUAA) appreciates the opportunity to provide comments for consideration in response to the Australian Energy Regulator's (AER) Draft Decision on Powerlink's revenue application. The EUAA notes that the AER has seen fit to reduce the capex of Powerlink by over $400M and its revenue by about $78M over the regulatory period.

In general, customers have found Powerlink a well run and technically efficient TNSP especially in the context of electricity supply problems faced by the state several years ago which were not been caused by Powerlink. The high demand growth rates experienced in the last few years in Queensland do present significant challenges Powerlink has applied innovative solutions, including the use of demand side resources and grid support. These methods have helped to contain costs whilst maintaining a highly reliable supply across Queensland. We also acknowledge that Powerlink has taken steps to ensure timely connection of new major loads onto the Queensland electricity system and that this has played a significant role in maintaining a reliable supply amidst significant load growth.

We believe that the current determination needs to ensure the continuation of these virtues in Powerlink's operations and performance.

Powerlink has also been willing to undertake serious engagements with end users, including in this Revenue Proposal, by initiating and perusing meetings with customer representatives. Most recently, Powerlink initiated a discussion with the EUAA after the release of the draft determination to explain to us its concerns with the decision, as well as its position on various issues that are important to both the business and users. Its actions in this regard have been the most proactive of any TNSP to date and have set a trend that is being picked up by other TNSPs.

Customers may be prepared to accept some degree of "over investment" in network assets if we can be assured of offsetting benefits in higher network reliability and lower wholesale energy market prices. However, allowing for this, Transmission Network Service Providers' (TNSP) costs still need to be "efficient" and subject to close regulatory scrutinyNevertheless, a number of issues continue to be of concern to our members. These include:

- whether the most economically efficient project alternatives are always being implemented by Powerlink;
- the inclusion of $530M worth of assets "under construction" to Powerlink's Regulatory Asset Base (RAB), which accounts for around $46.5M of Powerlink's revenue (or 8.7% of the revenue in the first year of the next regulatory period);
- the underspending of the capex allowed in the current regulatory period amounted to almost $10M of excess revenue. This underspend may be repeated or even increased due to the very large capex sought;

- the regulatory regime provides very weak incentives for the Transmission Network Service Providers (TNSPs) to operate efficiently, while providing TNSPs with gaming opportunities by manipulating the timing of their capex;
- the finding by PB Associates that the level of asset replacement needs to be significantly increased. At the same time, PB also found that the project scope on which the forecast level of expenditure was based was often greater than justified by assessment of the condition of the assets;
- doubts about Powerlink's ability to deliver an ambitious capex program over the sustained period given the lack of capacity of the engineering and construction sector;
- ignoring the potential for lower future commodity prices than used in determining the capex requirement;
- the proposed further increase in capex of some $428M in the supplementary submission, amounting to over 17% of the forecast capex requirement provided just 8 months earlier including:
    - almost 30% beyond the escalation that should have already been included in its original submission just for assets under construction; and
    - a further $125M increase beyond the escalation that was already factored into the capex forecast 8 months ago due to increases in unit rates;
- the acceptance by AER that the new National Electricity Rules for transmission revenue determination developed by the Australian Energy Markets Commission (AEMC) prescribe the Weighted Average Cost of Capital (WACC) parameters to be adopted leaving the AER with no freedom to adjust the values of these parameters even if they are found to be wrong;
- the decision by the AER that it will not update the WACC for the final decision. Such a decision clearly means that the AER will have ignored the most up-to-date data on inflation and interest rates when the final decision is made, despite recent indications that these variable will likely be different from those included in the Draft Decision;
- the indications that Powerlink may be becoming less efficient relative to the other TNSPs. In the three years between 2002/03 and 2004/05 (where the AER has provided comparative opex ratios), while the opex ratios of the other TNSPs (with the exception of Transend) have been generally declining, Powerlink's have been increasing despite the increasing proportion of "new" assets;
- the acceptance that no evidence of double counting of assets or costs has been found when discussing non-regulated activities without detailing the type of non-regulated activities and the basis of the cost allocation; and

- the impact on customers of TUoS increases of over 5% pa when inflation is forecast to be 3.15% pa.

1 INTRODUCTION

The EUAA appreciates the opportunity to provide comments for consideration in response to the AER Draft Decision on Powerlink's revenue application.

The transmission system is crucial to the proper functioning of the NEM. Besides providing reliable bulk energy transportation, the transmission system is also critical in stimulating competition, trade and liquidity. It has a significant impact on the wholesale cost of energy when inter-regional transmission constraints are relaxed. Recognising this, customers may be prepared to accept some degree of "over investment" in network assets if we can be assured of offsetting benefits in higher network reliability and lower wholesale energy market prices. However, allowing for this, Transmission Network Service Providers' (TNSP) costs still need to be "efficient" and subject to close regulatory scrutiny. Energy users expect the AER to maintain a balance across these objectives.

In general, customers have found Powerlink a well run and technically efficient TNSP. It has high calibre management and employees, and is well led. In many ways Powerlink has performed admirably for Queensland in the context of electricity supply problems faced by the state several years ago. Users recognise that these problems have not been caused by Powerlink.

We also applaud Powerlink for facing up to some significant challenges, including the high demand growth rates experienced in the last few years in Queensland and recognise that it has applied certain innovative solutions to address these issues, including the increasing use of demand side resources and grid support. These methods have helped to contain costs whilst maintaining a highly reliable supply across Queensland. We also acknowledge that Powerlink has taken steps to ensure timely connection of new major loads onto the Queensland electricity system and that this has played a significant role in maintaining a reliable supply amidst significant load growth.

We believe that the current determination needs to ensure the continuation of these virtues in Powerlink's operations and performance.

Among the TNSPs, Powerlink has shown that itself to be a leader in its willingness to undertake serious engagements with end users, including in this Revenue Proposal, by initiating and perusing meetings with customer representatives. Most recently, Powerlink initiated a discussion with the EUAA after the release of the draft determination to explain to us its concerns with the decision, as well as its position on various issues that are important to both the business and users. We also found Powerlink to be extremely willing to engage in open discussion with us. Its actions in this regard have been the most proactive of any TNSP to date and have set a trend that is being picked up by other TNSPs. We welcome his and the leading role that Powerlink has played.

While the EUAA is supportive of the AER's draft decision in a number of areas, we remain concerned that the AER has not fully recognised the impact of the price increase embodied in the draft on customers, as well as Queensland and the Australian economy. Customers expect the AER to take into consideration the impact transmission price rises will have on

the input costs of major energy users, and the need to keep inflation pressures under control for the good of the Australian economy (as espoused as recently as in February 2007 by Treasurer Costello[1]). We also expect the AER to recognise that all businesses in Australia face similar cost pressures to Powerlink but are not able to pass through such costs via a regulatory determination; they might pass through some proportion but must also look to make greater efficiencies in their operations or loose competitiveness and market share.

[1] http://news.ninemsn.com.au/article.aspx?id=59996

2 PAST CAPITAL EXPENDITURE

2.1 Project evaluation

The AER reported in the draft determination that PB Associates, in their review of Powerlink's past capex, has found that:

> *"Powerlink's project evaluation and implementation procedures for commissioned assets and assets under construction were consistent with good industry practice and generally well followed."* (Pg 14)

On the same page, however, PB stated that:

> *"There was limited documentation of the first stage of the project evaluation process, during which a list of project alternatives is culled on technical grounds. There appears to be no formally defined processes or criteria that determine whether a project is technically acceptable. This could lead to inconsistency in the decision process which may imply that the most economically efficient project alternative could be prematurely rejected."*

These statements seem to be contradictory and inconsistent. We question if the limited documentation of the first stage of the project evaluation process can be considered good industry practice? We urge the AER to examine the implications of PB findings and determine if the most economically efficient project alternatives have, in fact, been implemented and if not, the difference should be removed from the Powerlink's RAB so that customers are not paying for inefficiencies.

2.2 Assets under construction

The AER has noted EUAA's comments with regard to the inclusion of $530M worth of assets under construction in Powerlink's Regulated Asset Base (RAB). The AER also noted that this accounts for more than $44M of Powerlink's revenue (this was increased to $46.5M based on the higher WACC from the Draft Decision). The impact of this inclusion is that Powerlink's revenue requirement unnecessarily increases by 8.7% pa. However, the AER did not address this concern.

We understand that Powerlink would prefer the AER to revert back to the "as commissioned" basis for determining the RAB. This will limit the impact on transmission prices at a time where the capex level is significantly higher than the historical average. The Statement of Regulatory Principles appears to leave this decision, on whether to adopt the "as incurred" basis, to the TNSP.

However, the AER appears to prefer to set RAB on an "as incurred" basis. If so, we fail to understand why the AER seeks to increase the burden on customers during a time of increasing price pressures due to the high capex requirement. It seems perverse to us that it is the regulator that is partially responsible for fuelling the high transmission prices and adding inflationary pressures to the Queensland and Australian economy when the TNSP

is prepared to at least delay this switch in light of the high capex requirements and the impact on transmission prices.

2.3 Capex efficiency

We commend the AER for accepting our submission that the claimed capex efficiency was not the result of a management induced efficiency gain. We agree with the PB assessment that:

- Powerlink had not demonstrated that the claimed savings are the result of capex that was below forecast levels;
- The gains were not the result of management induced efficiencies; and
- Powerlink had not demonstrated that the efficiency gain was within its control – a rising value of land is outside Powerlink's control, and as a result, is not an efficiency gain but a windfall gain.

3 REGULATORY ASSET BASE

3.1 Excess returns

We note that in Table 3.1 of the Draft Decision, the AER has concluded that the excess returns achieved by Powerlink due to the underspending of the capex allowed in the current regulatory period amounted to almost $10M. While we recognise that the "incentive" regime allows the TNSP to keep the benefits of capex underspend as an "efficiency gain", the AER needs to investigate if such excess returns were, in fact, the result of greater "efficiency". This $10M would otherwise belong to end-use electricity customers.

3.2 *Ex-ante* regime

Customers continue to be very concerned with the incentive structure of the *ex-ante* regime. We are concerned that the regime provides very weak incentives for the TNSPs to operate efficiently, while providing TNSPs gaming opportunities by manipulating the timing of their capex.

Of concern to customers in the *ex-ante* regime is the potential incentives for the TNSPs to inflate the likely cost of capex, given that the TNSPs will retain the returns to any underspend during the 5 year period. Overspending on the other hand, while not being compensated during the 5 year regulatory period, will simply be rolled into the asset base without any review at the next revenue reset. The impact of this arrangement is likely to see TNSPs underspend during the first three years of the regulatory period, which will result in substantial net revenue benefits. The TNSPs are then likely to overspend, or at least play catch-up in the capex in the remaining years, when the penalty for overspending is limited. This is because they would continue to enjoy the benefits of a higher regulatory asset base for the life of the assets, which are simply rolled into the asset base as there is no review mechanism in the *ex-ante* regime.

The *ex-ante* regime remains untested. However, the significant increase in capex sought by Powerlink when compared with their historical capex, as well as the timing profile of their actual capex during the current regulatory period, suggests that TNSPs can manipulate the rules to the detriment of end users. We are concerned that TNSPs are using the *ex-ante* regime to improve their cash flow and returns without a corresponding improvement in services to customers. The AER needs to monitor how this arrangement is being put in practice by the TNSPs and to seek to change the rules if it can be shown that TNSPs have been exploiting the rules systematically to their advantage.

4 FORECAST CAPITAL EXPENDITURE

4.1 Replacement capex

Powerlink is forecasting very significant increases in replacement capex over that undertaken in the last five years. We understand from Powerlink that the age of the assets trigger an assessment of each asset condition and further analysis is then undertaken to determine whether the asset requires replacement or refurbishment.

PB found that the level of asset replacement is unsustainable and that a significant increase is required as a number of lines and substations are reaching the end of their expected lives. We understand from Powerlink that the level of replacement capex had been determined based on the actual condition of the assets rather than simply because it was due for replacement because of its age. We welcome this aspect of Powerlink's asset replacement policy. However, PB also found that the project scope upon which the forecast level of expenditure was based, was often greater than justified by condition assessments. They considered that Powerlink's replacement forecast expenditure was the upper bound and that a lower level would be reasonable. While they were unable to determine what that level was from a bottom up review, their top down approach using the RAB's age profile suggested that Powerlink's estimate was $111M over the appropriate level. This is almost 14% of Powerlink's forecast replacement expenditure.

Customers need to be certain that similar over specification is not also applied to other areas of capex, otherwise the impact on prices could amount to over $34M pa (based on Powerlink's supplementary capex forecast and the draft decision's WACC).

4.2 Increase in input costs and deliverability of capex program

A significant proportion of the capital program is attributable to higher input costs and consequently the work increase in physical terms is much less than the increase in dollar terms. PB considered that the capex program was achievable and that there was still reasonable scope for Powerlink to realise efficiencies during the next regulatory period.

We, however, remain concerned about the deliverability of such an ambitious capex program. Our concern centres on the impact of the skills and labour shortage in Queensland in particular, and Australia in general, on the ability of Powerlink to deliver the capex forecast. Powerlink has used the tight labour and skill market to justify cost increases. They have indicated that contractors were less willing to quote for work and the number of contractors submitting tenders for contracts had fallen. Yet they continue to expect to be able to continue at this historically high level of investment throughout the next period. We believe that either:

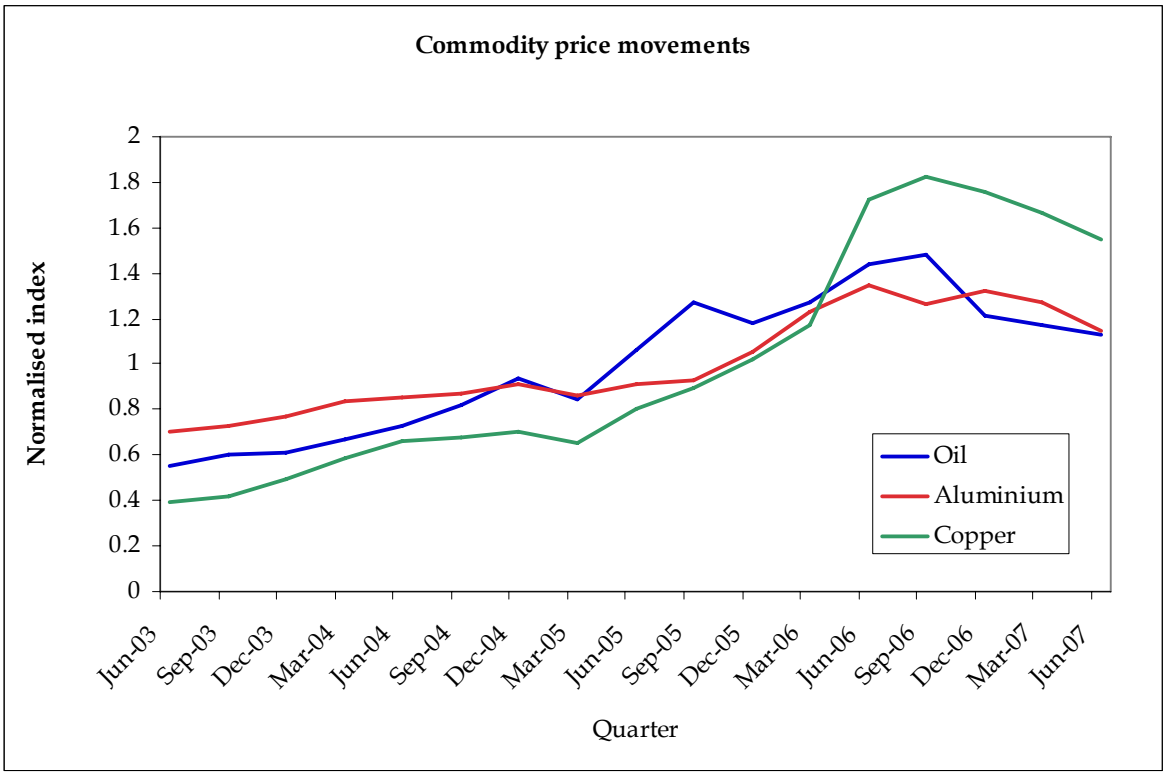
- the capex program will not be delivered due to the inability to source sufficient contractors to undertake the work, or alternatively,

- if Powerlink was able to deliver the program, it would mean that the overall quantity of work in the industry has reduced. This will mean lower unit cost.

In either case, the forecast capex seems excessive.

We do note that, in the last 3 to 4 months, commodity prices have started to fall. This has been seen in the price of oil, steel, copper and aluminium; all important inputs to electricity transmission. Forecasts from ABARE indicate that commodity prices are expected to continue to fall. The movements in some indicative commodity prices can be seen in Figure 4-1.

Figure 4-1 Commodity Price Movements



Source: ABARE, *Australian Commodities Report*, Volume 11 Number 4, December 2004 and Volume 13 Number 4, December 2006

The reason for this fall is two fold: lowering of demand as growth rates in major growth economies like China and India moderate and, more importantly, the high prices have elicited increased supply. More sources of commodities have come online recently as new mines have opened in response to high commodity prices and these sources are not going to disappear because prices have recently come down. We thus expect that commodity prices will not stay at the very high growth in prices seen in the recent past, but will return to more moderate levels. This is a natural economic response.

4.3 Powerlink's supplementary submission

In December 2006, Powerlink submitted to the AER a supplementary revenue proposal. The supplementary submission proposed an increase in capex of some $428M. This amounts to over 17% of its forecast capex provided just 8 months earlier. If in 8 months, Powerlink's costs have increased by 17%, what confidence do users have of Powerlink's ability to adequately reflect price uncertainty over a 5 year timeframe? Has the AER any information to demonstrate that network businesses are reasonably able to accurately forecast their future capex requirements 6 to 7 years into the future? The ability to reasonably accurately forecast is a key in ensuring that TNSPs are able to operate their business successfully. It is also critical to ensuring that charges paid by customers are reasonable.

4.3.1 Assets under construction

Powerlink forecasts that the costs of its assets under construction have increased by $155M. This is an increase of almost 30% *beyond the escalation already included in its original submission.* The AER needs to consider the following in its determination:

- are these projects procured under fixed price contracts? If not, why not? How are the risks of cost blowouts managed for "internal" construction compared against contracted construction?
- have any of these costs been hedged, especially if materials and equipment are imported?
- have the projects been re-evaluated to determine if the proposed project is still the least cost solution? If there is enough outstanding work that the outstanding components can increase in price by 30% beyond the significant increases factored in 8 months ago, it tends to suggest that the project has not progress beyond the initial stages and that a re-evaluation of the project may be required to ensure that it is still the least cost solution; and
- has the justification/economic benefits of these projects been re-evaluated in light of the sharp increase in costs? Have other options been re-considered that may result in lower costs?

We note the costs have actually *decreased* in the final two years. This would seem to suggest that changes beyond simple cost indexation (increases) have been included. The AER and end users need to understand what these changes are.

4.3.2 Cost increases for future projects

Powerlink has forecast a further $125M increase beyond the escalation that was already factored into the capex forecast 8 months ago due to increases in unit rates. We question the rationale for this increase including:

- what has changed since April? Have short term "blips" in commodity prices been extrapolated over the long term? What independent, long-term forecasts of commodity prices have been used as a "sanity check", and how have these changed since April?
- what escalation was already included in the April submission? How has this changed, why, and is it reasonable? We note that recently, some relevant commodity prices have fallen – have these also been factored in?
- given the magnitude of the increase, has the justification and cost/benefit for projects been re-assessed?
- given the magnitude of the increase, has the optimality of the projects been re-assessed?

Given the magnitude of this increase, the AER should consider if this unprecedented long-term "hyper-inflation" in commodity prices can be quarantined and considered as a "contingent" event? This will allow Powerlink to include the cost, should the increase eventuate, while protecting customers from paying for the cost increases which may not occur given its unprecedented nature.

5 COST OF CAPITAL

5.1 MRP and Equity Beta

The AER acknowledged that our submission raised the issue of an excessive MRP and equity beta. However, the AER states that the new rules prescribe the WACC parameters to be adopted and, by implication, leaves the AER with no freedom to adjust the values of these parameters. If this is the case, then the benchmark values are inappropriate and will need to be changed as evidence has built up that the values used are overly generous to NSPs. The AER and the AEMC will need to review these values. Simply accepting wrong MRP and beta equity values throws the whole revenue review process into disrepute. We urge the AER and the AEMC to review the rules if it is shown to be a constraint on the AER in its regulatory responsibilities.

5.2 Inflation

We note that the AER has forecast inflation at 3.15%. This is above the 2.9% forecast by Powerlink. We submit that the AER is overly pessimistic regarding inflationary expectations, as recent indications of inflation above 3% has resulted in the Reserve Bank increasing interest rates. This is likely to result in inflation falling to within the target range of the Reserve Bank, i.e. 2% to 3%. We also note that, in the forecast for maintenance material cost drivers (pg 131), the AER has provided for an increase of 2.9% pa. This we believe is more reflective of inflationary expectations than 3.15%. Support for this position may be seen in the December 2006 inflation figures, where prices in fact fell 0.1% over the preceding quarter, as commodity price reductions, including falls in the cost of petrol and bananas, flowed through to the CPI.

5.3 Update in Final Decision

We are deeply concerned that the AER has indicated that it will not update the WACC for the final decision. Such a decision clearly means that the AER will not have considered the most up-to-date data on inflation and interest rates when the final decision is made. This is most unacceptable to users.

In January 2007, the ABS released updated inflation figures that are significantly lower than that reported over the previous year. Inflationary expectations in 2007 have fallen and, as a result, the likelihood of further rate increases has diminished. If fact, many commentators have recently speculated that the next interest rate move is as likely to be down as up. We do however acknowledge that the Reserve Bank Governor recently indicated that the next movement in interest rates are more likely to be up than down. This has significant implications for the risk free rate as evidenced by the immediate fall in bond yields following the release of the December 2006 CPI data. These developments have all occurred since the draft decision was made. A reasonable final decision must include all available information including information released after the draft decision.

6 OPERATING EXPENDITURE

6.1 Relative Efficiency

Figures 6.2-6.4 in the Draft Decision seem to indicate that Powerlink may be becoming less efficient relative to the other TNSPs. In the three years shown, while the opex ratios of the other TNSPs (with the exception of Transend) have been generally declining, Powerlink's have been increasing.

6.2 Wage growth

We note that the AER and PB have accepted Powerlink's forecast of over 5.8% increase in labour costs for 2007/08 and we agree that this reflects both recent wage pressures, as well as the expected easing of inflation and the mining boom. We also agree that, at the end of the decade, wages growth will likely be back to a long term sustainable level that will maintain employment growth. Wages growth above the 3% to 4% pa level is likely to result in increasing inflation, as well as unemployment.

6.3 Non-regulated activities

AER needs to detail the type of non-regulated activities the Powerlink is engaged in and the basis of the cost allocation. We understand from Powerlink that its non-regulated activities include consultancy services and telecommunication services. The AER should examine overheads, like the costs of accommodation and human resources, and ensure these have been allocated to these parts of the business so that electricity customers are not cross-subsidising other areas of Powerlink's activities. It is not sufficient for the AER to simply state that no evidence of double counting of assets or costs has been found.

7 SERVICE STANDARDS

The AER found that the targets proposed by Powerlink were the same as those contained in the 2003 SKM report and based on performance data available before 2002. It also found that based on these targets, Powerlink would not be revenue neutral between 2002 and 2005. It, however, does not detail how Powerlink's revenue would be affected – i.e. positively or negatively and by how much. While it is appropriate that the most recent and reliable performance data available should be used to determine performance targets, it appears that the recommended targets of Table 7.4 are easier to reach than the historical average, as adjustments were made for increased outages due to new works. No details were provided to compare the recommended targets against the previous targets. No analysis was undertaken in applying these targets to 2002 to 2005, i.e. how would Powerlink's revenue be affected over these years based on these targets.

8 IMPACT ON CUSTOMERS

The AER had estimated that the draft decision would result in an increase in transmission use of system (TUoS) charges of 2% nominal in the first year of the next regulatory period and 5% pa nominal in the following 4 years. This is despite the very significant increase in delivered energy which already provides Powerlink with a substantial increase in revenue. The AER states that "*forecast energy delivered (*is*) increasing at a faster rate than revenues*". If so, should prices not be falling instead? The fact that prices are increasing implies that revenues are increasing at a faster rate than demand.

We also note that the 5.3%[2] pa compound increase in TUoS is significantly higher than expected inflation which the AER has forecast at 3.15%. We are concerned that the AER has not fully recognised the impact of this real price increase on customers, as well as the Queensland and Australian economy. Customers expect the AER to take into consideration the impact transmission price rises will have on the input costs of major energy users, as well as the competitiveness of the Australian economy and the need to keep inflation pressures under control (as espoused recently by Treasurer Costello). We also expect the AER to recognise that all businesses in Australia face similar cost pressures to Powerlink but are not able to pass through such costs via a regulatory determination; they might pass through some proportion but must also look to make greater efficiencies in their operations or loose competitiveness and market share.

[2] The increase from $10.90/MWh in 2007/08 to $13.40/MWh in 2011/12 equates to a 5.3% pa increase.

9 CONCLUSION

The transmission system is crucial to the proper functioning of the NEM. Customers may be prepared to accept some degree of "over investment" in network assets if we can be assured of offsetting benefits in higher network reliability and lower wholesale energy market prices. However, allowing for this, Transmission Network Service Providers' (TNSP) costs still need to be "efficient" and subject to close regulatory scrutiny. Energy users expect the AER to maintain a balance across these objectives. While the EUAA is generally supportive of the AER's draft decision with respect to Powerlink's revenue application, we remain concerned with a number of issues.

These include:

- the implementation of the most economically efficient project alternatives by Powerlink;
- the inclusion of $530M worth of assets "under construction" in Powerlink's Regulatory Asset Base (RAB) accounts for around $46.5M of Powerlink's revenue. This accounts for around 8.7% of Powerlink's annual revenue;
- the underspending of the capex allowed in the current regulatory period amounted to almost $10M of excess revenue. This underspend may be repeated, or even increased, due to the very large capex sought;
- the incentive structure of the regulatory regime provides very weak incentives for the Transmission Network Service Providers (TNSPs) to operate efficiently, while providing TNSPs with opportunities to influence the timing of their capex;
- the finding by PB Associates that significant increases in the level of asset replacement was required while the project scope on which the forecast level of expenditure was based was often greater than justified by condition assessments;
- Powerlink's capacity to deliver an ambitious capex program over a sustained period;
- ignoring the potential for lower commodity prices than used in determining the capex requirement;
- the proposed further increase in capex of some $428M in the supplementary submission, amounting to over 17% of the forecast capex requirement provided, just 8 months earlier including:
    - almost 30% beyond the escalation that should have already been included in its original submission just for assets under construction; and
    - a further $125M increase beyond the escalation that was already factored into the capex forecast 8 months ago due to increases in unit rates;

- the acceptance by AER that the new National Electricity Rules for transmission revenue determination developed by the Australian Energy Markets Commission (AEMC) prescribe the Weighted Average Cost of Capital (WACC) parameters to be adopted, leaving the AER with no freedom to adjust the values of these parameters, even if they are found to be wrong;
- the decision by the AER that it will not update the WACC for the final decision. Such a decision clearly means that the AER will have ignored the most up-to-date data on inflation and interest rates when the final decision is made despite recent indications that these variable will likely be different from those included in the Draft Decision;
- the indications that Powerlink may be becoming less efficient relative to the other TNSPs. In the three years between 2002/03 and 2004/05 (where the AER has provided comparative opex ratios), while the opex ratios of the other TNSPs (with the exception of Transend) have been generally declining, Powerlink's have been increasing despite the increasing proportion of "new" assets;
- the acceptance that no evidence of double counting of assets or costs has been found when discussing non-regulated activities without detailing the type of non-regulated activities and the basis of the cost allocation; and
- the impact on customers of TUoS increases of over 5% pa when inflation is forecast to be 3.15% pa.

Of particular concern is that the AER does not seem to fully appreciate the impact of the price increase. Transmission price rises will have a discernible impact on the input costs of major energy users, as well as the competitiveness of the Australian economy and the need to keep inflation pressures under control. The AER needs to recognise that all businesses in Australia face similar cost pressures to Powerlink but are not able to pass through such costs via a regulatory determination. To compensate for higher costs, they must obtain greater efficiencies in their operations or loose competitiveness and market share. Regulated TNSPs, however, would be shielded from experiencing normal market forces if regulators allowed them to pass on all cost increases to customers without any efficiency offsets.