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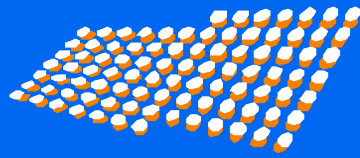
Partner

# ***ACCC Public Forum***

18 March 2004

George Maltabarow  
Acting Managing Director

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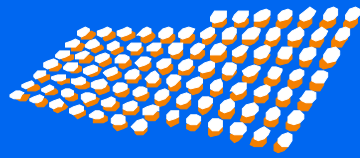
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# **Issues**

1. ACCC process
2. ACCC Regulatory Framework
3. Response to Supplementary Draft

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## **ACCC process**

Initial application - September 2003

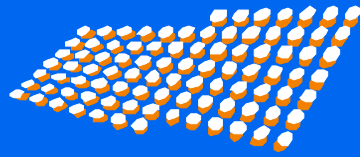
Draft Determination - April 2004

Supplementary Draft - March 2005

9 months into the regulatory period we have:

- no final determination in place
  - ☑ derogation in place for pricing purposes
- continued framework uncertainty
- questions over code compliance of supplementary draft determination

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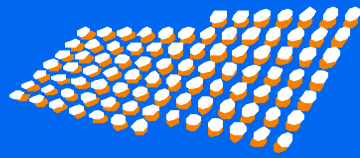
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## ***ACCC Framework***

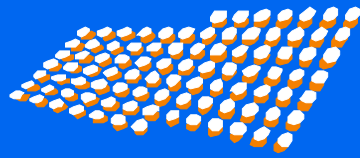
- Initially ACCC proposed “firm” cap
- EA supports move away from firm cap
- However, EA believes “modified cap” is designed to limit capital investment

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## ACCC Framework

- ACCC argues that new framework alleviates need to review “every nut and bolt”
- EA believes ACCC has abandoned notion of economic incentives driving performance outcomes
- Instead, ACCC’s strategy is to second-guess management and technical expertise of utilities
- Regulation has become intrusive and regulates behaviour rather than performance
- Is this what Hilmer had in mind?



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## ***ACCC Framework***

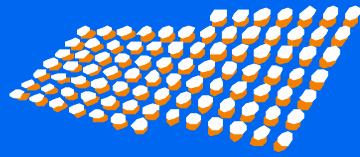
- ACCC now makes project by project decisions
- ACCC puts itself in the shoes of the utility, the management & the Board
- BUT where is ACCC's accountability when things go wrong?

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## *Price impact*

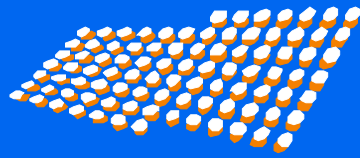
- ACCC rejected \$100m capex for EA
- Price impact of including full capex (\$283m) is:
  - \$0.82 per year on average end user's bill
  - or 1.6 cents per week
- Very concerning that ACCC risks network failure for such a marginal benefit to consumers








## Case study: Ourimbah STS

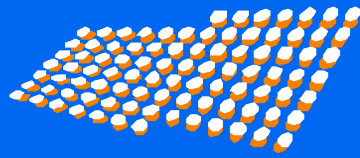
- EA proposed replacement due to aged equipment and loading
- ACCC recommended that Ourimbah be deferred
- Consequences are significant for Central Coast residents if substation fails
- 49,000 customers could face blackouts
- Impact could be avoided for extra:
  - 15 cents per year on final bills
  - or 0.3 cents per week










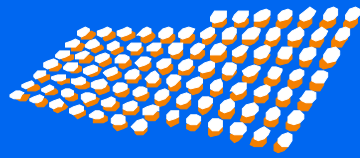
# ACCC Framework

- Main cap allowance
  - ACCC has moved away from FIRM cap 
- Excluded projects
  - ACCC trying to cater for uncertain capital 
  - regime itself uncertain 
  - 5-year incentive period is not supported 
  - Regime cannot be implemented properly under Code 



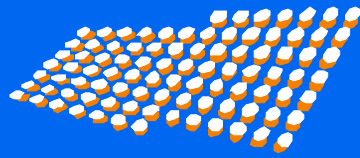
# ACCC Framework

- Re-opener mechanism
  - Not subject to consultation 
  - Not consistent with current Code 
  - Cannot be implemented without Code change 
  - Replaces the pass-through rules 
  - Reduces flexibility of framework 



## So what have we achieved?

	Initial draft (April 2004)	EA's revised submission	Supplementary draft (March 2005)
Forecast capex	\$184m	\$283m	\$182m
Total revenues	\$509m	\$517m	\$501m
Firm cap			
Pass-through			
Code compliance			?



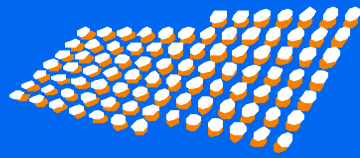
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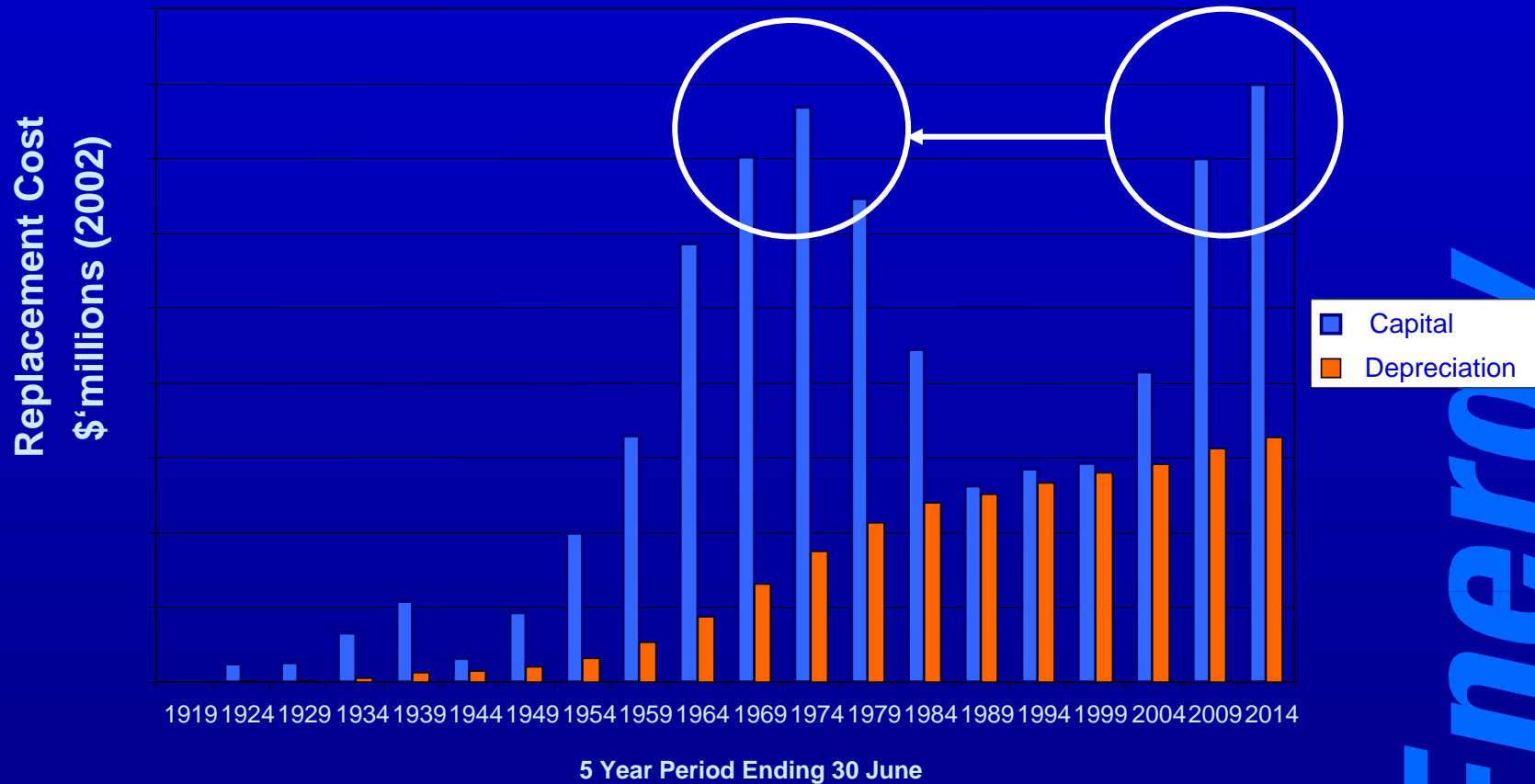
## ***The Supplementary Draft***

- \$65m cut to replacement program
- Represents 40% of what we sought
- Cuts are not sustainable in long term
  
- \$35m project excluded (but not funded)

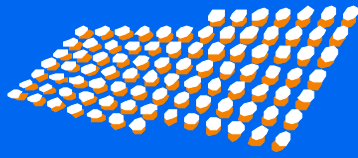
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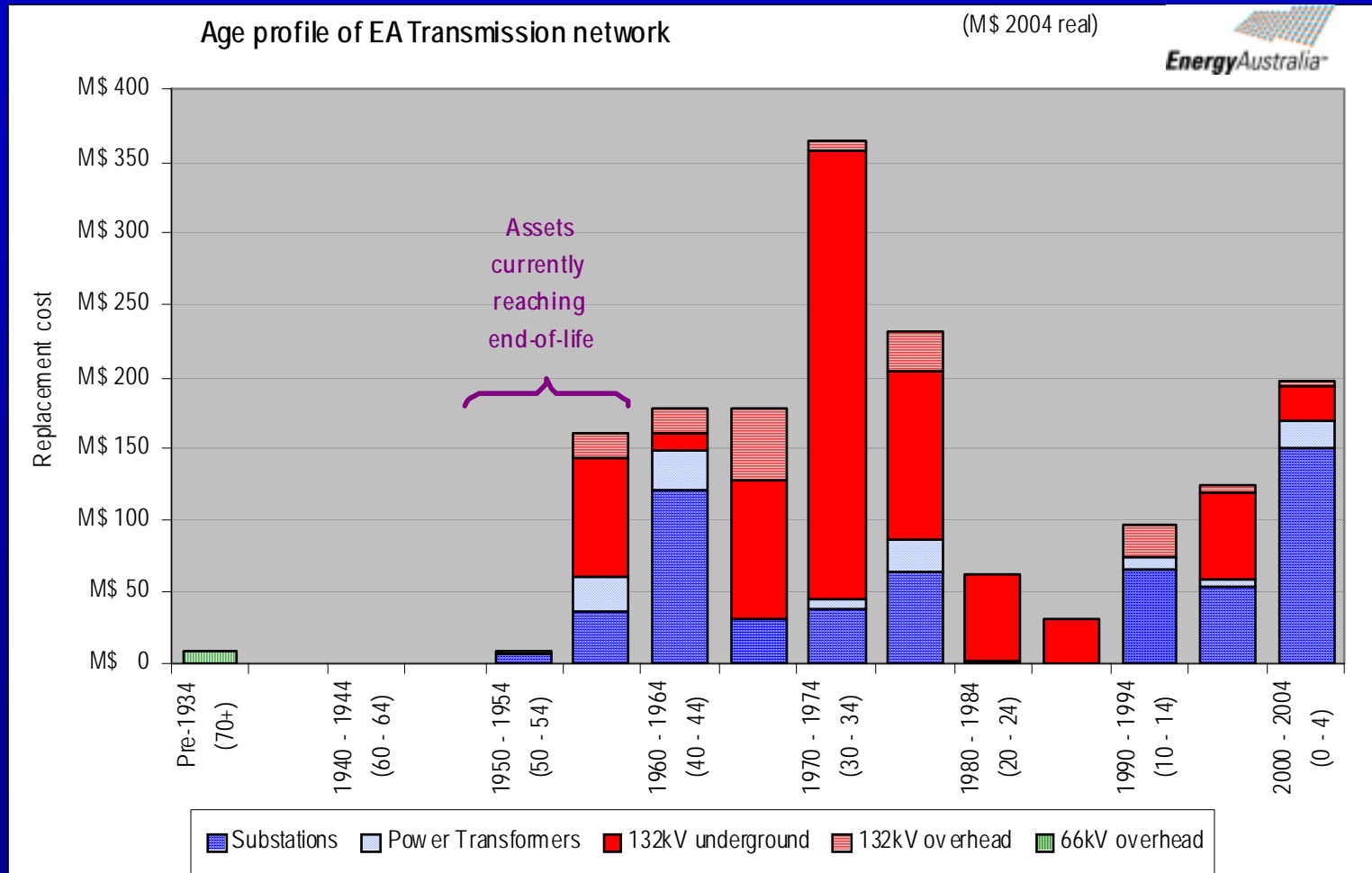
### Capex cycle: replacing assets built in 1960s



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## SKM report on replacement

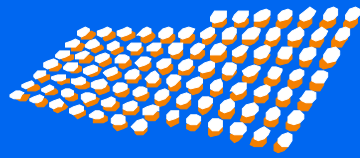


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## Capex reduction

- \$65m rejected through PB desk top review
  - EA brought SKM in to verify the replacement strategy
  - SKM proposed higher levels of replacement than put by EA
  - ☑ replacement strategy represents justified middle ground
- Replacement of critical elements denied by ACCC
  - aging transformers & switchgear **denied**
  - 70 year old OH line **denied**
  - Ourimbah STS **denied**
  - ☑ unacceptable level of safety and reliability risks



## Next steps

- EA responded to ACCC's initial draft in July 04
- ACCC has not addressed EA's response to:
  - cuts to opex
  - rejection of past capex

Step 1 - Address outstanding issues

Step 2 - Improve workability of excluded projects framework

Step 3 - Deliver final determination in time for 2005-2006 prices