

Submission to the ACCC by the Joint Customer Groups

Australian Business Ltd  
Australian Consumers Association  
Energy Action Group  
Energy Users Association of Australia  
National Farmers Federation

**ACCC's DRAFT DECISION ON TRANSGRID  
AND ENERGY AUSTRALIA REVENUE  
APPLICATION**

20 July 2004

Partial funding for this submission was provided by the National Electricity Consumers' Advocacy Panel and it was prepared with the assistance of:



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Ref: J1114

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## 1 INTRODUCTION

Australian Business Limited (ABL), the Australian Consumers Association (ACA), Energy Action Group (EAG), Energy Users Association of Australia (EUAA), and National Farmers Federation (NFF), the Joint Consumer Groups supporting this submission, appreciate the opportunity to provide comments for consideration on the ACCC's draft decision on TransGrid's and EnergyAustralia's transmission revenue cap application. This submission addresses the main issues of concern to our members and seeks to ensure that these issues are captured in the ACCC's consultation process prior to its final determination.

It is our view that there are a number of deficiencies in both the draft decision and the consultation process that has been undertaken so far in considering these applications.

Our major concerns are:

- That the lateness of the release of the GHD technical report into TransGrid's and EnergyAustralia's opex and capex, together with the short time allowed for comments, rendered it difficult for stakeholders to make adequate input into the process.
- With the limited number of technical consultants available – and an apparent lack of transmission network experience in these consultants evidenced by the number of non-conclusions reached by GHD in their report – consumer groups are concerned with the credibility of the technical report.
- While TransGrid based its opex increases on a forecast Wage Cost Index increase of 5%, the ACCC has reduced this increase based on historical WCI increases of 4.1% over the last 5 years. We note, however, that based on recent ABS data, over the last two years, average WCI has increased by only about 3.6%, although WCI in the electricity and gas industries have been higher at about 4.5%.
- The ACCC has accepted that “Terrorist Events” would constitute a reason for a pass through of costs incurred, but we are concerned about the loose definition of such an event.
- In other pass through events, we are also concerned about the asymmetry of information and process. How would customers know if an event has occurred that would occasion a pass through of reduced costs? Are customers allowed to apply for such a pass through even if such details were known? The TNSPs are unlikely to make such an application.
- How does the ACCC propose to monitor the costs incurred in completing the MetroGrid project and the 84% cost inclusion in the asset base? We believe that

providing some quality benchmarks, which are aligned with costs, are more useful than simply reducing the incurred cost.

- The ACCC persist in applying a historical market risk premium of 6% when recent evidence indicates that the Australian MRP has fallen. Recent surveys indicate MRPs of 4%-5% and even lower. UK regulators apply MRPs of 3.5% based on a forward look assessment. We have difficulty understanding why the ACCC continue to reject such evidence and seem reluctant to follow the lead of lower MRPs established by overseas regulators, notwithstanding that the Australian economy does not provide a justification for such differences. We would appreciate the ACCC either adopting lower MRPs in its Final Determination, or else explaining clearly why they will not do so.
- Of greatest disappointment to customers is the setting of the equity beta at 1, despite the well-known fact that TNSPs are relatively risk free businesses and also the ACCC acknowledging that it has been overly generous in setting equity betas for past decisions.
- The costs to consumers and the industry associated with the delays in the ACCC 's decision-making process.
- There is a strong need for regulated transmission entities to be provided with both positive and negative incentives. However, 1% revenue at risk is simply too small an incentive to have an effect. Relative to transmission costs, performance can have a large impact on energy prices and their risk premiums.

## **2 ISSUES WITH TECHNICAL CONSULTANTS' REPORTS**

In its original timetable, the ACCC indicated that the GHD report would be available in mid December 2003 with comments and submissions due in mid January 2004, a comment period of approximately 4 weeks. In a subsequent revised timetable, the release of the GHD report was delayed to mid February 2004 with comments due by early March. While we recognize that delays do happen, when the report was finally released on 8 April 2004, the day before the Easter weekend, the ACCC set a deadline for comments of 20 April 2004. This in effect only allowed concerned stakeholders around a week to review two very substantial reports, consult within their own organizations, and produce a reasoned response.

We are also concerned with the lack of depth in the reports. This is evidenced by the numerous instances that GHD failed to reach a conclusion. In the case of TransGrid, based on a sample of \$463M out of a total historical capex of \$1.2b, GHD indicated that

they were not able to come to a conclusion for \$301M because TransGrid did not provide GHD with sufficiently detailed data in a timely manner that would allow them to undertake a more rigorous analysis of a number of important issues. It is, however, possible that another technical consultant would have ensured either that data was available or reasonable estimations used to arrive at conclusions. We are disappointed that GHD did not do this.

Perhaps the ACCC should (if it has not already done so) require TNSPs to report all required data in a consistent format by setting up a standard information template. This will provide TNSPs with a clear understanding of the type, quality and depth of the information requirements and avoid the problems faced by its technical consultants.

How can customers have any confidence in a report that is unable to conclude if 65% of the capex under analysis is either justified or efficient? If this proportion is applied to all of TransGrid's historical capex, some \$780M of capex is in question. We estimate that this would amount to over \$88M in annual revenue or about 27% of TransGrid's MAR, a significant proportion of TUoS charges. Since it amounts to such a significant portion of TransGrid's MAR, customers would expect the ACCC to arrive at a firmer conclusion to justify the inclusion or otherwise of this expenditure.

The ACCC should perhaps consider how best to develop such expertise for future reviews. This could be achieved by developing its pool of technical consultants.

### 3 OPEX

For TransGrid, the ACCC has determined a total opex allowance for the period 2004 to 2009 (in 2004 dollars) of \$568.22 million compared to TransGrid's request of \$658.35 and the ACCC's allowance in the 2000 Decision for the period 1999 to 2004 of \$563.65 million (also in 2004 dollars).

Differences are due to the following:

- TransGrid used forecast opex for the year ending 30 June 2004 that is 20 percent higher than its opex in the first 3 years of the current regulatory period as its starting point. The ACCC chose a starting point based on the last year for which audited data is available (2002/03) and then excluded some one-off opex costs arising in that year. The ACCC should also note the pattern of opex over the five year regulatory period, as it seems to be repeating for all NSPs. That is, in the first two or three years immediately after a regulatory reset, the level of opex (or opex growth) is significantly lower than that applied for and even approved by the regulators. In the last two years, however, the opex spend seems to invariably increase to justify the higher expected expenditure in the next regulatory period.

The ACCC should be well aware of this type of regulatory gaming by now and be taking steps to prevent it. If it does not it is tantamount to approving inflated TUoS charges to be paid by end users.

- TransGrid assumed that the majority of its costs would increase on the basis of a Wage Cost Index (WCI) of 5%, which was substantially higher than the historic evidence of this index. The ACCC assumed the WCI will continue at its average annual growth over the last five years of 4.1%. We note, however, that average Australian WCI over the past two years amount to 3.6%, while the electricity and gas industry WCI is consistently higher than the average at around 4.5%. We submit that this is likely to be the outcome of the lack of competitive pressures in the industry, which has allowed the sector to pay above average wage rates. We would expect the ACCC to ensure that TransGrid's costs are competitive.
- The ACCC also included a 2 percent compound reduction in opex over the coming period. This was on the basis of evidence presented by TransGrid, consistent with international evidence on productivity improvements that have been achieved by similar network businesses that have been subject to comparable opex incentives and that TransGrid has as its own internal target for improvement (which they have not achieved). As a whole, the productivity of the Australian economy is improving at about 1.8% pa. Given the substantially higher than average WCI increases in this sector, the productivity target set by the ACCC does seem to be fairly benign and not very challenging.

We also note that the ACCC had not accepted the advice of GHD on removing the cost of the 50 “non-core” staff from TransGrid on the basis that these staff have been re-deployed into “core” areas after rejecting voluntary redundancies. Yet in a competitive market, it is unlikely that these staff would have been so redeployed as the necessary cost savings would have prevailed. Why did the ACCC not apply this aspect of the competitive market on TransGrid given the requirement for incentive regulation to mimic competitive market outcomes?

## **4 PASS THROUGH**

We applaud the ACCC in rejecting TransGrid's attempt to pass through to customers virtually any potential cost event as unforeseen.

However, in accepting that “Terrorist Events” would constitute a reason for a pass through of costs incurred, we are concerned that such an event needs to be clearly defined. For example, would a terrorist incident not directed at TransGrid's assets but potentially impacting on TransGrid's costs be also allowed for pass through? We have seen recently the airlines passing through the increased costs of fuel to the air traveling

community, which could be linked to the “war against terrorism”. If an application from TransGrid or EnergyAustralia were received by the ACCC for a pass through of costs that, while not a direct result of a terrorist event, are due to cost increases related to terrorism, will it be approved by the ACCC?

In relation to pass through events, we are also concerned about the asymmetry of information and process. How would customers know if an event has occurred that would occasion a pass through of reduced costs? Are customers allowed to apply for such a pass through even if such details were known? The TNSPs are unlikely to make such an application.

We note that the ACCC has stipulated that the pass through mechanism for EnergyAustralia should accommodate both positive and negative amounts in the interests of both TNSPs and customers and that pass through reviews should be able to be initiated by both the TNSP and the ACCC. While sound in theory, we question how exactly the ACCC’s will be able to detect cost changes which would be in the interest of customers given its lack of intimate knowledge about the workings of TNSPs between regulatory periods and its light handed approach to regulation.

The ability to pass through cost increases is inherently biased against consumers due to the asymmetry of information. The ACCC would seem to be in no better a position than customers to make such an assessment given that the NSPs are unlikely to highlight such changes to the ACCC.

We are unclear how the ACCC intends to deal with such situations, but it seems that consumers are being left with a considerable degree of upside risk in this matter.

This is an issue that the ACCC needs to consider more carefully and come up with a solution that will satisfy customers in its Final Determination.

Another question is, given that the ACCC is the competition regulator for a monopoly service provider, how would a competitive market treat such cost increases? Would it simply pass it through to the consumers or would at least a portion be absorbed by the producers? In economic terms, what are the elasticities of demand and supply that the ACCC is willing to impose on this monopoly service? If nothing else, this is an issue to be addressed in the ACCC’s Statement of Regulatory Principles.

## 5 CAPEX

### 5.1 HISTORICAL CAPEX

#### 5.1.1 TransGrid

ACCC's 2000 Decision on TransGrid's capex allowance is \$906.17 million (2004 dollars). On a comparable basis, TransGrid's Application claimed an actual spend of \$1,194.9 (including return on capital, a difference of \$288.7M). The ACCC decided to exclude (after prudence review), \$126.75 million from the TransGrid capex spend for the next regulatory period. The main reasons are:

- Reduction in the value of the Bayswater 500kV line by \$70M since it has not operated on 500kV but only on 330kV. The ACCC had flagged this optimization in its 2000 Decision.
- Reduction of the Sydney CBD project (MetroGrid) by \$44M on the basis that TransGrid has failed to demonstrate that all the investments in the project was prudent. Also since the project is not yet complete, the ACCC has decided to apply an incentive on TransGrid to manage the remaining cost of the project by allowing TransGrid to only include 84% of its remaining capital cost into the RAB.

While the reasons to optimize the cost of MetroGrid is sound, as the investments have not been proven to be prudent, we question the ability of the ACCC to adequately ensure that future expenditure claims for this project accurately reflects the costs incurred rather than it being inflated by "management" or "consultancy" fees. Allowing TransGrid to include 84% of the remaining capex for this project also assumes that this is an adequate incentive for TransGrid to minimize costs. If this assumption is inaccurate, customers may well be paying for an asset that fails to perform. On the other hand, it could be too generous to TransGrid and therefore still result in inflated costs.

It may thus be necessary to also provide performance benchmarks for this project to ensure that customers get an adequate cost-value proposition. Failure to meet such costs performance benchmarks should then trigger further reductions in the amount of capex that may be rolled into its RAB.

#### 5.1.2 EnergyAustralia

The ACCC has applied a similar arrangement to rolling in of EnergyAustralia's \$62M of capex spend on the basis that EnergyAustralia did not demonstrate that the total spend was prudent. The ACCC disallowed any return on EnergyAustralia's investments in the CBD upgrade and other projects that EnergyAustralia failed to provide sufficient information to demonstrate efficiency. However, given the fact that prudence/efficiency

was not demonstrated, should actual capex spent on these project also be reduced, not just the disallowance of a return on investment.

Customer should not have to pay for the cost of poor investments regardless of whether this is expressed as actual costs or returns to such investments.

EnergyAustralia had also applied for a re-valuation of its Regulatory Asset Base on the basis that there were “significant problems with the 1999 valuation” based on the ODRC valuation accepted by IPART.

The ACCC is well aware that customer groups have always held the view that the ODRC method overstates the value of assets. The methodology:

- does not take into account the fact that these assets have been paid for by customers in the past;
- leads to values that are invariably higher than any depreciated actual cost valuation; and
- disadvantages end-use customers subject to the pressures of internationally competitive markets

Constant revaluation creates uncertainty and the potential adverse impact on the cost of equity. We applaud the ACCC in rejecting the attempt by EnergyAustralia to increase their RAB especially in the light of IPART also indicating it will not allow adjustments to the 1998 regulatory asset base as part of the roll forward methodology”. We see no reason why EnergyAustralia should avoid this restriction simply because some assets have been deemed to be transmission assets.

## **5.2 EX ANTE ASSESS OF FUTURE CAPEX**

The ACCC has indicated that it will implement an *ex ante* assessment of the reasonableness of future capex for both TransGrid and EnergyAustralia. While being open to this change, customers are also concerned with a number of issues. Of greatest concern is that the concept is still fairly nebulous and that the *ex ante* process will need to be clarified. The ACCC will need to assess the risk to users and the potential opportunities for TNSPs to exploit the process to the disadvantage of users. If the ACCC is convinced that the *ex ante* approval process is appropriate, then it also needs to explain why it is limited to major works as envisaged in the draft Statement of Regulatory Principles and not for all future capex. It will also need to clarify the definition of major works.

Given that this is both a major change to the approval process, as well as requiring both TransGrid and EnergyAustralia to resubmit their future capex estimates, customers will expect a reasonable consultation process based on the updated application before a

decision is made. Customers would hope to make an input into the reasonableness of updated application. We will also expect the ACCC to subject the new applications to rigorous technical reviews, as this is critical given ex ante approval of capex.

## **6 TRANSGRID'S ROLE IN THE NEM**

NSW geographic location and its flexible generating plant means that it plays a pivotal role in the NEM. Queensland and Victoria both rely on imports from NSW at times of high demand and export to NSW at other times. While ACCC acknowledges the role TransGrid has in the NEM, it is difficult to see how the DD actually recognises this fact. The continued efficient operation of the NEM trading arrangements means that it is critical to come to a sound position on how inter-regional capex is to be funded. The application by TransGrid for capex funding to enable the transfer of Queensland generation to South Australia and Victoria needs to be resolved for the good of the NEM. However, it is inappropriate for NSW consumers to pay for this expense, as the benefits may not be enjoyed within the jurisdiction.

Should it be shown that there are benefits that accrue to NSW customers from this expenditure, it would then be appropriate for NSW customers to bear an appropriate proportion of the costs. Nevertheless, other beneficiaries including generators within NSW, as well as those outside NSW, should also be required to bear their proportion of these costs. The current regulatory arrangements in the NEM make this cost allocation to multiple jurisdictions difficult, although Code change proposals resulting from NECA's distributed resources package would represent some improvement. In addition, customer groups have in the past urged the ACCC to align the timing of the regulatory review for TNSPs. Such a move will allow the ACCC to more rationally fund the required interconnections in the NEM. This is further discussed in Section 7 below.

## **7 REGULATORY ARRANGEMENTS**

### **7.1 SIMULTANEOUS REVIEWS FOR TNSPS**

It has also previously been suggested that the regulation of transmission entities would be more effective if applied uniformly across the NEM. Completing reviews and revenue re-sets for all regulated TNSPs at the same time would best do this. This highlights once again that the current arrangement of piecemeal review of individual TNSPs at different times is costly, inefficient and substantially reduces the benefit to end-users of regulation. The ACCC is permitted significant discretion in the Code that could allow the alignment of regulatory reviews for all TNSPs at the same time. This position is also consistent with

the Ministerial Council on Energy's desire to have a consistent national regulatory standard for all TNSPs. This has been advocated before by consumer groups, including the EUAA and EAG. Besides allowing a rational basis for the imposition of costs to customers and generators in other jurisdictions, such an alignment of the regulatory cycle will also enable easier benchmarking to be undertaken.

A simultaneous review for all TNSPs in the NEM would also be a solution to the issue of beneficiaries paying for inter-regional connections. Costs incurred in developing inter-regional connections can be allocated to beneficiaries (both generators and customers) in other jurisdictions. This cannot be done simply under the current arrangements.

## **7.2 ENERGYAUSTRALIA REGULATORY ARRANGEMENTS**

As we have argued in our earlier submission, the current regulatory arrangement that applies to EnergyAustralia's network is also unsatisfactory. It requires EnergyAustralia to submit separate applications to separate regulators for different parts of what is essentially one network. This is unnecessarily bureaucratic. The arrangement would require the ACCC and IPART to work closely together, cross checking the submissions and cost data to ensure that potential "double dipping" of overhead and other operating expenses do not occur.

The current arrangement is likely to open up regulatory gaps and increase regulatory compliance costs. It would be significantly more efficient for EnergyAustralia to be wholly regulated by IPART as a distribution network service provider with its current transmission voltage assets deemed part of its distribution network or (preferably) for the EnergyAustralia transmission assets be transferred to TransGrid.

On top of this anomaly, the NSW DNSPs' regulatory arrangements are now based on average price cap rather than on total revenue cap, while TNSPs are regulated by a revenue cap. These two forms of regulation present another complexity to EnergyAustralia, as well as other stakeholders.

## **8 WEIGHTED AVERAGE COST OF CAPITAL**

### **8.1 MARKET RISK PREMIUM**

While UK regulators have all adopted (around) 3.5% based on forward-looking market views (and judgments), the ACCC continue to insist that Australian financial markets are less efficient and investors require a higher premium to invest in the Australian market and as a result, customers are required to pay TUoS charges reflecting a MRP of 6%. The

ACCC has not provided any evidence that the Australian financial market is less efficient than the UK and US markets. In our earlier submission<sup>1</sup>, we have cited numerous instances where evidence exists that recent Australian evidence indicates that the MRP is significantly lower than the 6% used by the ACCC. All the evidence is also indicating that MRP is likely to continue to be lower in the future than in the past.

These recent studies and surveys indicate that an MRP in the region of 4%-5% may a more accurate reflection of the Australian financial market. Globalization and integration of capital markets continues, so therefore does the likelihood that the MRP has fallen to levels consistent with the major world financial markets. Insisting that the Australian MRP will remain at 6% is difficult for consumer groups to comprehend and difficult for the ACCC to justify to NSW energy users.

We note that there is also a logical inconsistency of looking forward for all other values used for Capital Asset Pricing Model (CAPM), yet looking backwards for MRP. UK regulators have all accepted that this logical inconsistency is inappropriate and have adopted forward-looking approaches to all CAPM values. It is time for Australian regulators to do the same.

## 8.2 EQUITY BETA

In our earlier submission, we have provided evidence as well as statement from the ACCC giving reasons why the equity beta applied in past decisions have been unreasonable.<sup>2</sup> In the Draft Decisions, ACCC has acknowledged that they have, in past decisions, been generous to TNSPs by setting the equity beta at 1.0.<sup>3</sup> They acknowledge that an equity beta of 1.0 is biased towards the service provider. The ACCC cite sample market equity beta estimates of 0.16 in September 2003 and 0.18 in December 2003. Previously the ACCC has indicated that they would be relying more on market data, in determining an estimate of the proxy equity beta for TNSPs. The ACCC now has such market data, yet it is still reluctant to lower the equity beta while repeating “future decisions may place greater weight on contemporary market information in determining appropriate beta values.”

Customers have every reason to be sceptical about the ACCC’s resolve in this issue as it has thus far not shown any willingness to rectify past generosity. Customers are now expecting the ACCC to have the courage of its convictions and begin the process of removing this bias against customers and lower the equity beta at, say 0.7 or 0.8, while continuing with its investigations.

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<sup>1</sup> TransGrid and EnergyAustralia – Revenue Application to the ACCC, 14 April 2004 p 18

<sup>2</sup> TransGrid and EnergyAustralia – Revenue Application to the ACCC, 14 April 2004 p 19

<sup>3</sup> ACCC, Draft Decision - NSW and ACT Transmission Network Revenue Caps – TransGrid 2004/05-2008/09, 28 April 2004, p 91

also ACCC, Draft Decision - NSW and ACT Transmission Network Revenue Caps – TransGrid 2004/05-2008/09, 28 April 2004, p 94

The unwillingness to even move towards rectifying the mis-match between equity beta and the market risk profile is exacerbated by the fact that the ACCC acknowledges that an equity beta of 1.0 is inconsistent with the market risk profile of both TransGrid and EnergyAustralia. With pass through of cost changes that the ACCC has allowed, cost risks also disappear with consumers bearing these risks. It is inconceivable that a regulated monopoly business that does not face any revenue or cost risk, should be rewarded with an equity beta of one, when its risk profile indicates that its equity beta should not only be less than one, but in fact, should be close to zero. This would bring the WACC to a level that simply reflects the risk free rate and a debt margin.

The ACCC must ensure that the level of compensation enjoyed by network service providers must reflect the level of risk they carry; otherwise, the regulatory arrangement is failing Australian consumers.

The regulatory framework that gives the ACCC its regulatory role envisages a regulator that serves as a proxy for market forces. The ACCC needs to start doing this in the area of the equity beta.

### 8.3 IMPACT ON WACC

We have estimated that the impact of the above two variables can have a significant impact on the level of WACC and thus the MAR for both TransGrid and EnergyAustralia. Table 8-1 shows the various impacts based assuming that MPR is 4.5% and equity beta is 0.75 (which would still leave them on the 'generous' side as far as regulated businesses are concerned).

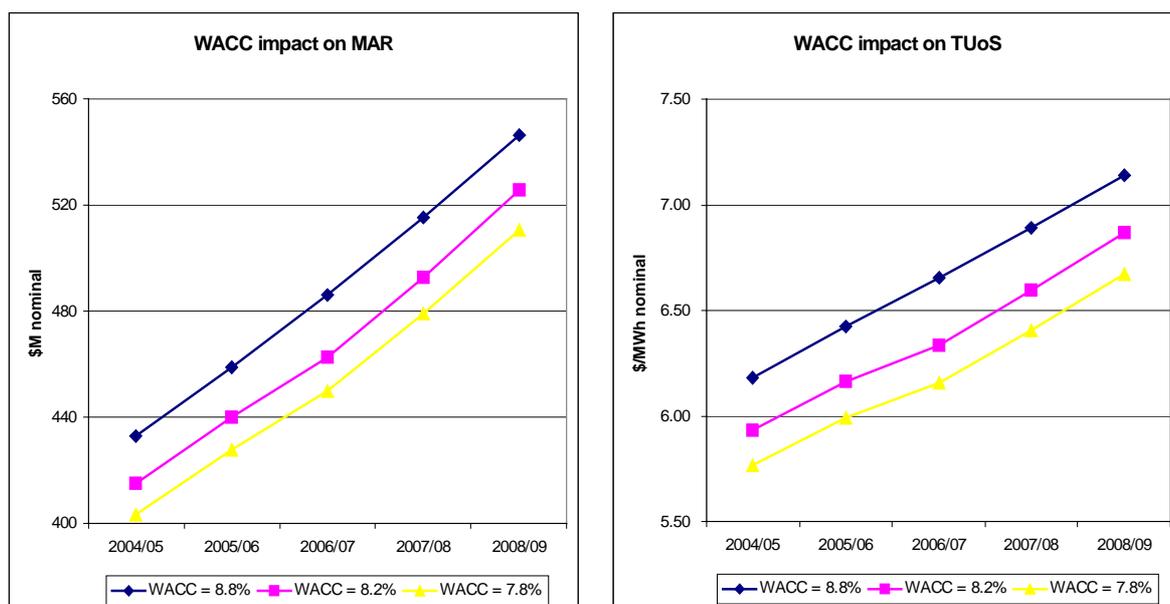
Table 8-1 Impact on WACC

	TransGrid Application	EA Application	ACCC DD	Alt 1	Alt 2	Alt 3
Rf	5.01%	5.55%	5.89%	5.89%	5.89%	5.89%
$\beta_e$	1.12	1.06	1.0	1.0	0.75	0.75
MRP	6%	6%	6%	4.50%	6%	4.5%
Debt margin	1.485%	1.457%	0.87%	0.87%	0.87%	0.87%
Rd	6.50%	7.025	6.76%	6.76%	6.76%	6.76%
Re	11.73%	11.91%	11.89%	10.39%	10.39%	9.27%
E/V	40%	40%	40%	40%	40%	40%
D/V	60%	60%	60%	60%	60%	60%
WACC	8.59%	8.97%	8.8%	8.2%	8.2%	7.8%

## 8.4 IMPACT ON REVENUE AND TUOS

We estimate that reducing either the MRP to 4.5% or the equity beta to 0.75 will reduce TransGrid's MAR by an average of over \$20M pa over the next five years. Reducing both these parameters will lead to a lower MAR of over \$33M pa average over the same period. The impact is shown in Figure 8-1.

Figure 8-1 Impact on TransGrid MAR and TUoS



## 9 SERVICE STANDARDS

Customers have previously made known to the ACCC our strong views on the need for regulated transmission entities to be provided with (positive and negative) incentives for service standards, particularly related to the impacts on the energy market (for example, due to outages for scheduled maintenance). This is axiomatic given the large impact, relative to transmission costs, that the actions of transmission companies can have on energy prices and their risk premiums. In this regard, TransGrid is particularly pivotal given that it straddles virtually all NEM regions. The effect of TransGrid outages (whether planned or forced) could have a profound impact on the pricing of energy in the wholesale electricity market. Inappropriately timed outages on the TransGrid's system could significantly affect energy prices in the various energy market nodes leading to increased risk faced by retailers (and consumers) and corresponding higher cost of energy.

We thus urge the ACCC to take into consideration the effects of transmission outages on the wholesale electricity market in assessing the performance of TransGrid.

The ACCC has established a Service Standards Working Group for transmission and the EUAA is represented on that group. We welcome this initiative and look forward to the development and rapid implementation of better service standards for transmission as a result of this. In that regard, we welcome some recent positive developments in relation to this work, including the ACCC according it a higher priority and also its work towards the development of a set of benchmarks. We would urge the ACCC to apply these to Transgrid and EnergyAustralia during their next regulatory periods.

Traditionally, TNSPs have achieved fairly high reliability levels. Consumer complaints regarding reliability are largely directed at distribution networks rather than the transmission system. Nevertheless, customers expect that continuous improvements in performance are necessary to justify the continuous real increase in capex and opex sought. Pressure should be put on these monopoly network service providers to ensure that increases in returns to shareholders are not made at the expense of the standard of performance.

In this regard, we welcome the ACCC's decision to adopt GHD's recommended performance incentives for TransGrid and EnergyAustralia as we recognise the need for regulated transmission entities to be provided with incentives to provide good service. However, 1% revenue at risk is simply too small an incentive to have an effect on the behaviour on TNSPs. A more substantial risk/reward arrangement would be needed to make an impact.

## 10 CUSTOMER IMPACT

Finally, we welcome the fact that the ACCC's DD has taken some account of the impact of its decisions on customers. However, we urge the ACCC to go further and to be more specific.

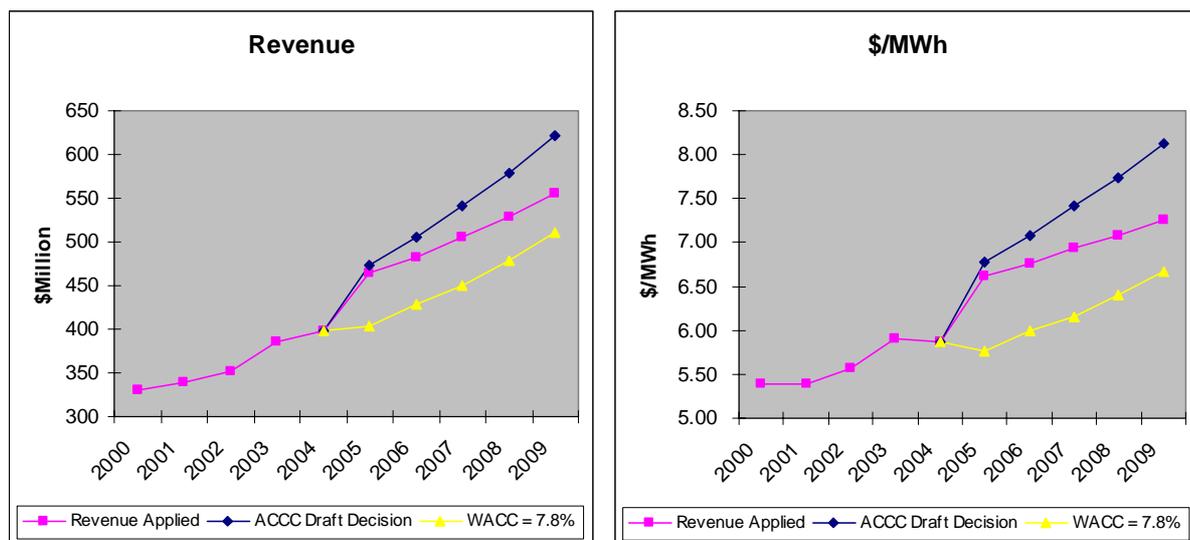
The impact off its decisions on customers has been brought into stark relief by the experience of Tasmanian customers who have experienced very substantial price rises as a result of the ACCC recent determination of Transend's revenue application and how that has translated into actual charges. As an example, Australian Paper has estimated that its transmission charges have increased by 36% since the ACCC's decision in December 2003 and are now 31% higher than Transend's average cost to supply. This increase amounts to some \$860,000 pa. This increase is despite the ACCC estimating that the average impact on Tasmania's TUoS charges at around 9% pa.

In fact, the EUAA is aware that the ACCC DD is already being used to justify extremely high price increases to some larger customers on so-called 'cost reflective network tariffs'. These increases are of the order of 20% in one case and our information suggests that they cannot be justified in terms of cost reflectivity, load characteristics or asset usage. We understand that the ACCC has been made aware of this matter and strongly urge the Commission to avoid circumstances where such outcomes occur.

This raises the matter of how ACCC revenue determination are translated into actual tariffs, how customers are informed about these and what avenues they have to complain about alleged monopoly price abuse or discriminatory pricing. It is our consistent experience that customers (even large ones) are vulnerable in this area and that regulators afford them no effective protection. Whilst we are not arguing for 'micro management' of tariffs, we do strongly urge the ACCC to make sure that they address these matters in their Final Determination.

The impact of the Draft Decision on TransGrid customers is shown in Figure 10-1. We have also shown the impact of a WACC of 7.8% on TransGrid revenue (Figure 8-1) and on the TUoS charges (nominal) that customers will have to pay.

**Figure 10-1 Impact of Draft Decision on TransGrid's Customers**



While we welcome the ACCC DD for reducing the price increases sought by TransGrid, nevertheless, the draft decision still amounts to an average real per MWh price increase of approximately 7.5% over the five years. This is despite the fact that significant load growth is expected over the period and the operating efficiencies that TransGrid has claimed to have achieved. We have to question if the principle of benefit sharing between customers and the monopoly service providers applies to TransGrid. Customers are certainly seeing little of this in practice.

Similarly, while customers appreciate the reduction in revenue requested by EnergyAustralia, it still represents a significant step increase as can be seen in Figure 10-2.

The Draft Decision would still allow EnergyAustralia to increase its transmission revenue by an extra \$20M pa on average when compared to the trend increase based on the current period's approved revenue.

Figure 10-2 EnergyAustralia's Transmission Revenue

