ACCC Draft Decision EnergyAustralia Issues

Joint Customer Presentation

Australian Business

Australian Consumers Association

Energy Action Group

Energy Users Association of Australia

National Farmers Federation

Regulatory Arrangements

Requires EnergyAustralia to submit revenue applications to separate regulators for different parts of one integrated network

- unnecessarily bureaucratic
- likely to open up regulatory gaps
- potential "double dipping" of overhead and other operating expenses
- increase in regulatory compliance costs

Regulatory Asset Base

- 1999/2000 decision provided for an opening regulatory asset base for EA's transmission asset of $457.4M
- Also provided for a capex of $56.7M and depreciation of $50.47M
- EA claims a new ODRC valuation of its regulatory asset base of $702.1M
- Over 50% increase in RAB on the basis that there were

  "… significant problems with the 1999 valuation…" accepted by IPART.

Regulatory Asset Base

- The ACCC is well aware that customer groups have always held the view that the ODRC method overstates the value of assets
  - does not take into account the fact that these assets have been paid for by customers in the past
  - are invariably higher than any depreciated actual cost valuation
  - disadvantage 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

Regulatory Asset Base

- IPART has indicated that "it will not allow adjustments to the 1998 regulatory asset base as part of the roll forward methodology."
- Why should EA avoid this simply because some assets have been deemed to be transmission assets.

Capex

Historical capex … GHD finds that

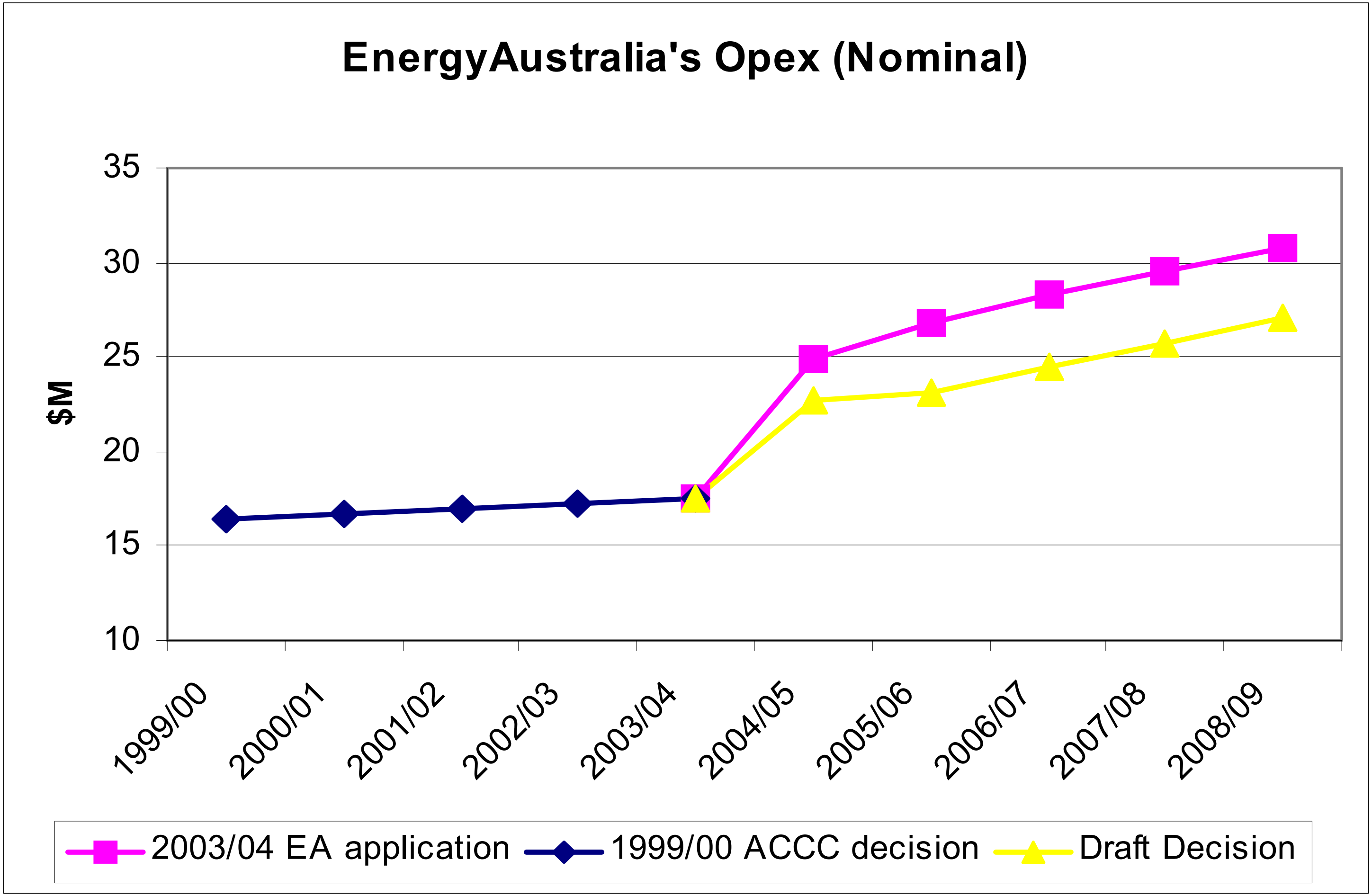
- Two projects identified where EA has not conducted the regulatory test and failed to comply with code obligations
- EA has not provided economic analysis of options to justify choice
- Unable to obtain from EA robust economic analysis of options
- Has not demonstrated a need for the undergrounding of transmission mains at Homebush
- CBD upgrade not necessarily prudent due to cost increases
- Failed to provide sufficient information to demonstrate that other projects were efficient investments

Capex

ACCC’s decision

- Disallow return on investment during construction
- ACCC DD allows EA to recover $125M! Is this prudent?
- How can customers be confident that this is an appropriate level given the lack of justification and economic assessment by EA?

Opex



EnergyAustralia's Opex (Nominal)
$M
35
30
25
20
15
10
1999/00
2000/01
2001/02
2002/03
2003/04
2004/05
2005/06
2006/07
2007/08
2008/09
2003/04 EA application
1999/00 ACCC decision
Draft Decision

Opex

We re-iterate our concerns that the regulatory arrangements are likely to open up

- regulatory gaps and
- potential “double dipping” of overhead and other operating expenses
    - eg FRC is not relevant to the transmission business, staff costs that are allocated to both the transmission and distribution businesses, cost of shared maintenance deports, customer service etc

Opex

Productivity gains

- EA have assumed no productivity gains!
- Customers expect them!
- GHD recommended for this review and ACCC has accepted that productivity gains of 0.5% in 1999/00 to 2.5% in 2003/04 were acheived
- But the DD does not impose any overall future gains – on the basis that specific cost drivers have been identified where scope for future efficiency gains can be achieved
- Yet there are cost drivers where GHD have been unable to verify the costs allocated, eg customer service and capitalisation
- Does this then leave customers worse off?

Customer Impact