

# ACCC Draft Decision TransGrid Issues

Joint Customer Presentation

Australian Business

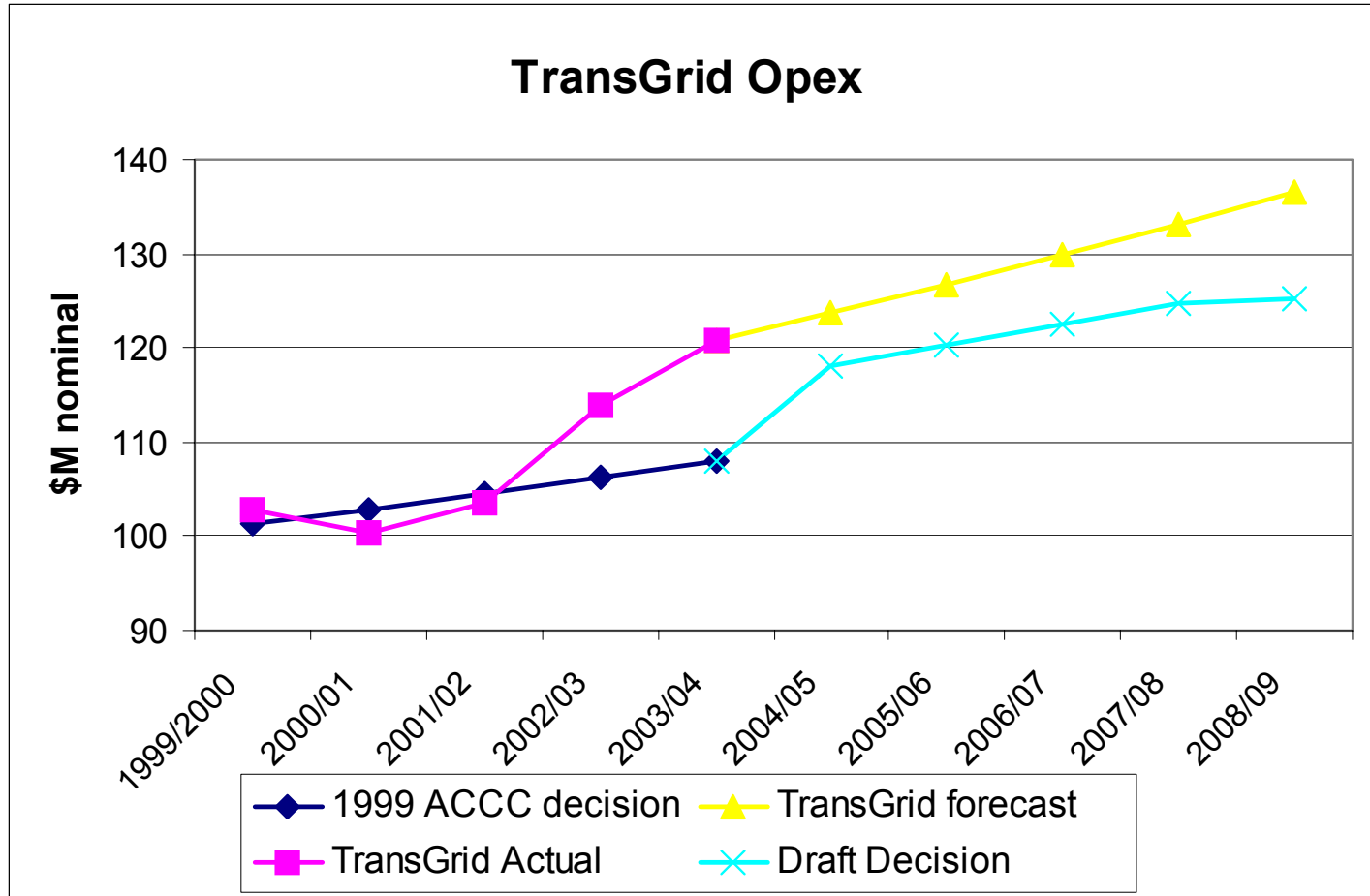
Australian Consumers Association

Energy Action Group

Energy Users Association of Australia

National Farmers Federation

# Opex



# Opex

## Wage Cost Index

- TransGrid assumes 5%
- ACCC assumes WCI continues at average annual growth of last 5 years at 4.1%
- Average Australian WCI growth over past 2 years of 3.6%

## Productivity

- Impose 2% productivity factor
- Same as TransGrid's as yet unachieved internal target
- Australian average productivity gains have averaged 1.8%pa across all sectors

# Capex

## Historical capex

- TransGrid claims to have spent \$1.2b in current period
- Based on a sample of projects totalling \$463m, GHD reached no conclusion on \$301m due to insufficient information or limited review
- Only \$115M was considered prudent and efficient – 25% of capex sampled!
- Also found that TransGrid had difficulty tracking project cost from inception to completion, undertaking and providing adequate justification and reviewing cost after approval!
- We welcome the ACCC's acceptance of the GHD conclusions and consequent reductions in capex
- Given that GHD's assessment was only based on a sample there could be further scope to reduce capex based on a more complete examination

# Capex

GHD found that TransGrid

- Projects incur significant cost and scope changes during development and implementation
- Did not reassess selection option to ensure that it is still the most economic after detailed engineering costing
- Experienced significant cost overruns
- And customers are still expected to pay!

# Capex

## MetroGrid

- Accounts for around a third of TransGrid's capex
- Estimated at \$276m but additional claims of up to \$40m
- Scheduled operational in July 2004
- Regulatory Test only provided for cost of \$142m and operational by Oct 2003.
- TransGrid cost overrun due to decision to significantly expand size after Regulatory Test.
  - 25% larger cable size
  - More and bigger transformers
  - To meet modified n-2 standard
- Was another RT undertaken to justify decision?

# Capex

## MetroGrid ... ACCC's views

- Despite cost overruns MetroGrid is still likely to fail to meet modified n-2 standard!
- No rigorous justification!
- Part of investment not prudent!

# Capex

## MetroGrid ... ACCC's decision

- Disallow return on investment during construction
- Allow TransGrid to recover full cash expenditure!
- Why should customers pay for costs of poor investments?



# Capex

## MetroGrid ... future cost

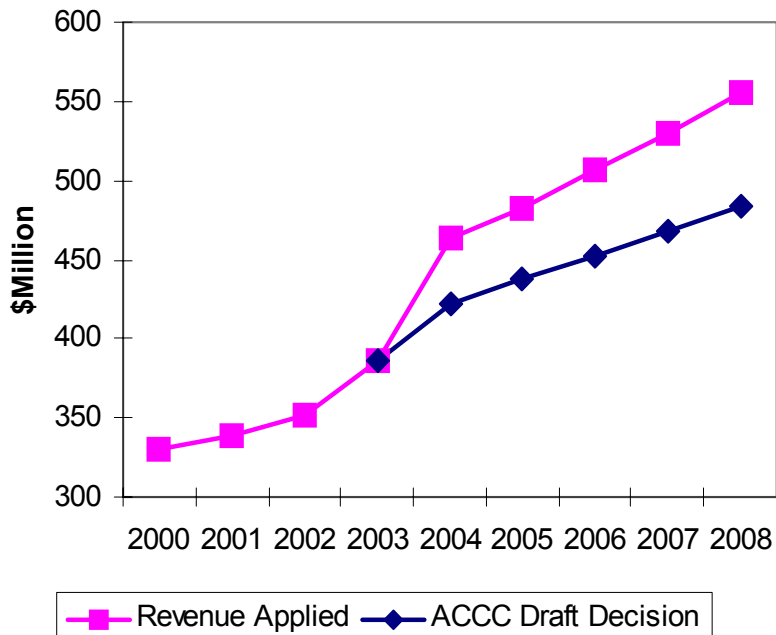
- Allow recovery of 84% of remaining capex
- Performance benchmarks needed to ensure that even 84% is appropriate and efficient

# Demand Management

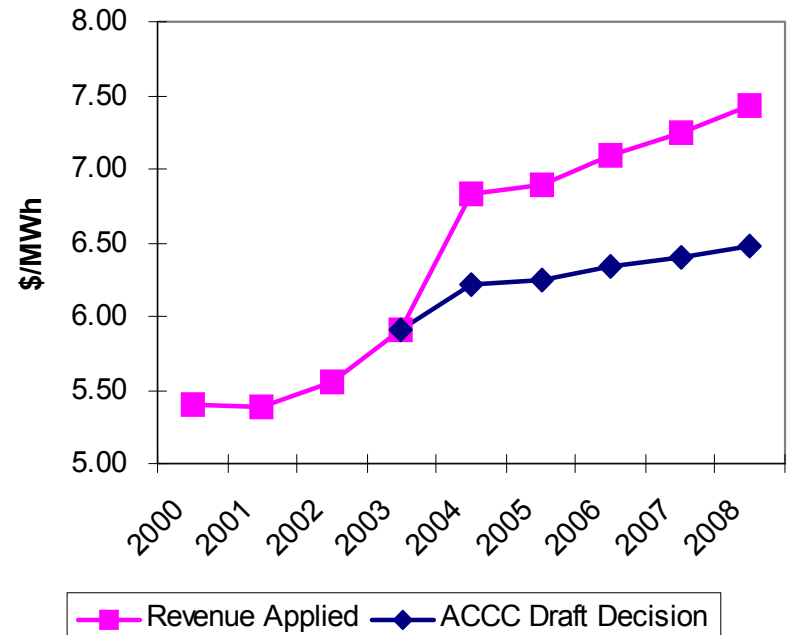
- No evidence in application to address any of the demand management and embedded generation opportunities.
- Opportunity to defer future capex with demand management/ embedded generation
- Evidence from EUAA Demand Side Response (DSR) Trial shows it can be done
- But regulators like ACCC need to show some intent and provide NSPs with incentives
- As part of MetroGrid, TransGrid (& EA) both required to provide \$5m each for DM projects
- Next to nothing spent or done in 3 years!

# Customer Impact

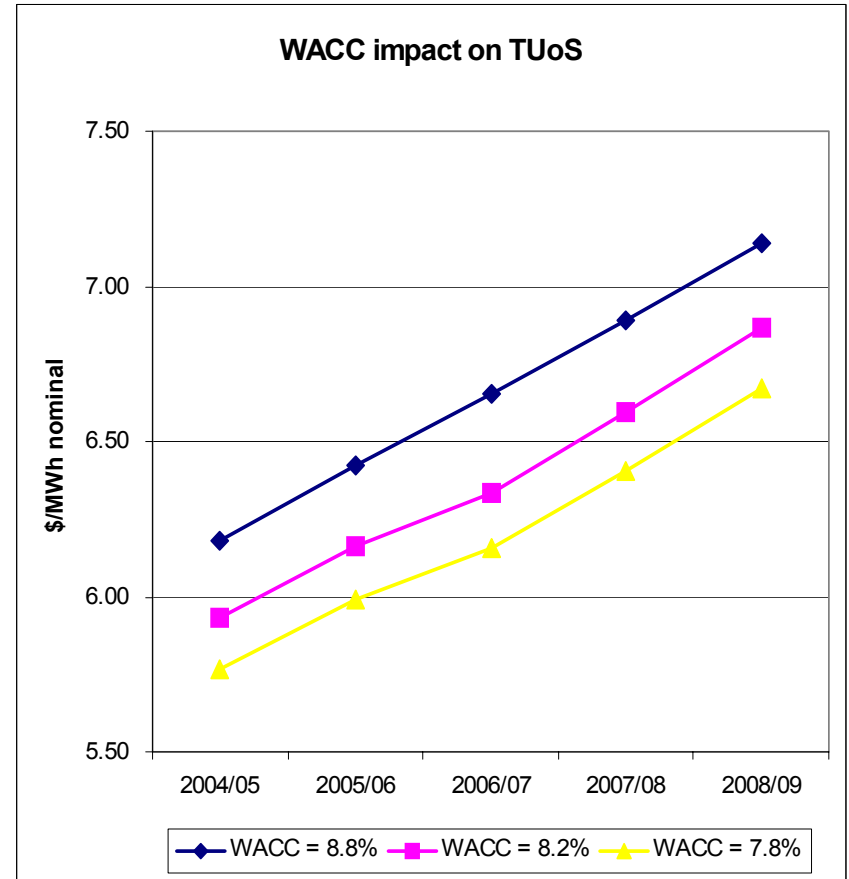
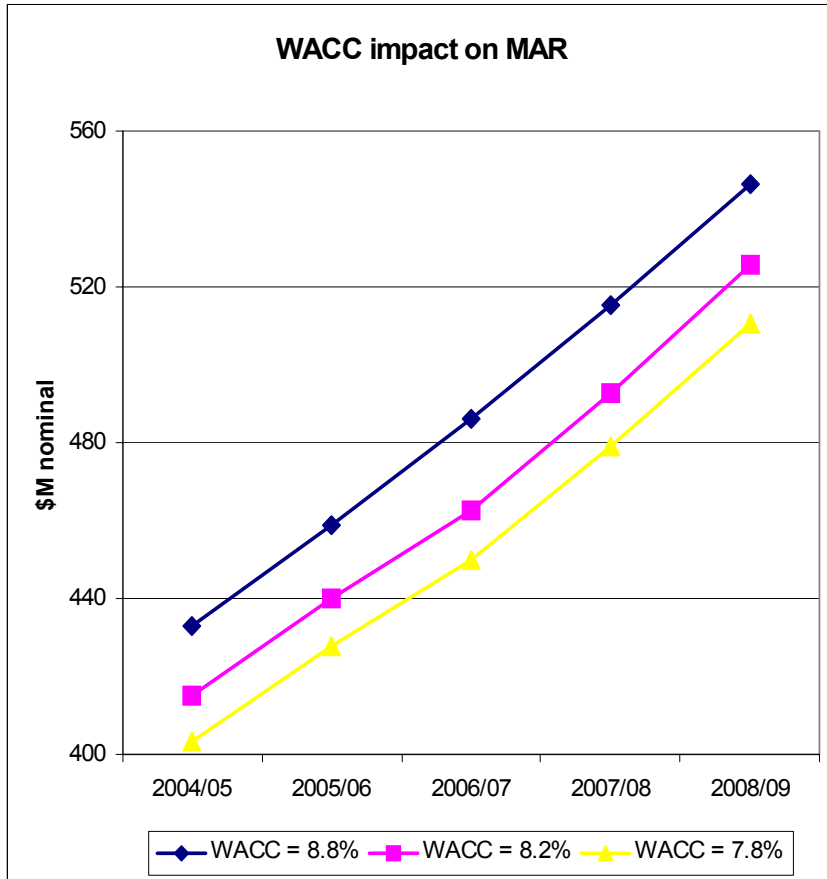
## Revenue



## \$/MWh



# Customer Impact ... WACC



# Performance Standards

- 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.
- Welcome the establishment of the Service Standards Working Group and the recent *new* priority given to it and towards the development of a set of benchmarks, albeit without any real incentives attached.