

27 November 2003

Mr Sebastian Roberts
General Manager - Regulatory Affairs - Electricity
Australian Competition and Consumer Commission
PO Box 1199
DICKSON ACT 26002

Dear Sebastian

TRANSEND'S REVENUE CAP REVIEW - GHD'S SUPPLEMENTARY REPORT

I am writing to you in connection with GHD's supplementary note which has today been published on the Commission's webpage.

As you know, Transend has repeatedly expressed its concerns that GHD's conclusions in relation to operating expenditure cannot be relied upon by the Commission. Transend first expressed its concerns regarding GHD's methodology to Commissioner Ed Willet in May 2003. Subsequently, Transend raised serious concerns with GHD's report in a submission to the Commission dated 23 July 2003.

Despite raising these concerns, the Commission's draft decision relied uncritically on the conclusions of GHD's report, and without due regard to the narrative in GHD's report. Transend's view is that the Commission has erred in its Draft Decision by not considering the material issues raised by Transend.

Specifically, Transend reiterated its earlier concerns regarding GHD's report in a letter and submission to the Commission, dated 24 October 2003. Transend's submission states:

"In its response to the GHD report (July 23), Transend examined the differences between the analysis described in the narrative of the report and GHD's conclusions using its 'alternative opex trend'. There remains an unexplained gap of \$12 million between the text in GHD's report and its conclusions." Transend's submission on the Commission's Draft Decision – Critical issues, page 8

By way of an example, Transend's submission examined in detail GHD's report in relation to Connection & Development expenditure (see submission pages 9 and 10). In reviewing both the narrative and the alternative opex trend, Transend's submission commented as follows:

"These GHD comments do not provide any guidance as to why \$6.4 million should be cut from the Transend's Connection and Development forecast. GHD do not explain why the additional \$90,000 per annum included in the 'alternative trend assessment' is considered adequate to address the acknowledged under-resourcing of the group. This appears to provide a clear indication that the alternative trend analysis is not well considered and should not be relied upon." Transend's submission on the Commission's Draft Decision – Critical issues, page 11

Transend's submissions have also raised concerns regarding GHD's proposed imposition of a 2% efficiency dividend. In particular, Transend commented that:

"In Transend's view, it is excessive to apply an efficiency 'dividend' of 2% to an 'alternative opex trend' which is imposed essentially to address efficiency concerns. This approach imposes a double-penalty on Transend, and is not justified by the GHD report." Transend's submission on the Commission's Draft Decision – Critical issues, page 12

Transend notes that the Commission has not applied such an efficiency 'dividend' in any other TNSP revenue determination. As GHD's report does not provide any justification for the 2% efficiency factor, its inclusion effectively widens the gap between GHD's conclusions (which include the 2% efficiency) and GHD's narrative.

The Commission has now published GHD's supplementary note which purports to explain the gap between the narrative in their original report and the conclusions. In fact, the report falls a long way short of this goal. Instead, GHD's supplementary note corrects an error in the timing of the System Controller transfer, and provides some notes regarding each line item in the "alternative opex trend". The report also claims that:

"Whilst a number of significant cost items were considered to be justified, others showed costs trending upwards without adequate justification for the extent of cost increases proposed (for example, Connections and Development costs)." GHD's supplementary note, page 1.

Transend would like to make the following comments in response the Commission's publication of GHD's supplementary note:

1. The issues raised by Transend (refer to submissions dated 23 July 2003 and 24 October 2003, and letter dated 20 October 2003) in relation to GHD's report have not been addressed thus far either by the Commission or by GHD's supplementary note.
2. GHD has not provided any justification for the 2% efficiency dividend in its supplementary note. This confirms Transend's view that the Commission has no reasonable basis for adopting the 2% dividend.
3. GHD's statement that Transend has not provided sufficient information to justify Connection and Development costs is incorrect. Transend is willing to make this information available again to the Commission, even at this late date.
4. Transend does not accept that it is appropriate for GHD's supplementary note to correct a single error which favoured Transend, when the reasonableness of GHD's entire approach is substantially in doubt.

5. The Commission cannot reasonably rely either on GHD's conclusions in relation to operating expenditure or GHD's supplementary note. Transend is very concerned that GHD's supplementary note has been published at such a late date, outside the timetabled consultation process.

Transend would also like to reiterate that it has repeatedly offered to provide further information if required to the Commission and its consultants throughout this review process. For example, Transend has provided GHD with over 100 documents, which support our revenue application. Transend's Board would therefore be extremely concerned if the Commission's Final Decision suggests that the company has not provided sufficient information with regard to any aspect of this review.

Yours sincerely

Stephen Clark