

## **POWERLINK QUEENSLAND**

RESPONSE TO: TransGrid's Forward capital expenditure requirements

PB Associates report to ACCC

January 2005

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Powerlink wishes to make several comments in relation to the PB Associates review of TransGrid's forward capital expenditure requirements, prepared for the ACCC. We do not wish to make any comments in relation to specific projects or costing processes. However, we consider that the manner in which the ex-ante cap and excluded projects framework are recommended to be implemented does not accord with the Statement of Regulatory Principles (SRP) itself or the background paper associated with the SRP.

### **Capital expenditure framework**

The capital expenditure framework described in the SRP consists of

- An ex ante allowance which covers most or all of the expected investments during the regulatory period; and
- An excluded projects provision to cover very large and uncertain investments.

Powerlink has consistently stated during the finalisation of the SRP that the ex poste prudency regime for capital investment offers the best balance by allowing TNSPs to meet their mandated statutory obligations whilst ensuring that customers are not overpaying for this service. Despite that Powerlink was not fundamentally opposed to the ex ante capex framework provided all prudent investment was eventually recognised and the processes associated with it did not add delays and prevent timely delivery of reliability.

### **ex ante allowance**

The ACCC proposed the ex ante allowance to overcome the perceived difficulties in applying the ex poste prudency check and to provide an enhanced capex incentive mechanism for TNSPs. It was acknowledged that establishing the allowance would require thorough up front analysis by the ACCC.

As applied by PB Associates it appears that the TNSP must have completed full analysis of options, including full investigation and comparison with non-network solutions, in order for a major project to be recommended for inclusion in the ex ante cap. The level of detail and analysis suggested is essentially equivalent to conducting a regulatory test evaluation and consultation process for a large network asset. Powerlink does not consider it reasonable or appropriate for this level of analysis to be required for projects up to seven years in the future. As a result the expenditure within the ex ante cap will never be "most or all of the expected investments during the regulatory period".

For projects where this level of analysis has not been conducted or where there is uncertainty PB Associates have recommended the project be included as an excluded project. It appears almost certain that some of the projects recommended as excluded projects will be required for implementation during the regulatory period. As a result the ex ante cap amount will underestimate the capital expenditure requirements of the TNSP and will not represent “most or all of the expected investments”. This is inconsistent with the intent of the arrangement stated in the SRP.

### **Excluded projects provision**

PB Associates have recommended that several projects be included in the excluded projects provision instead of the ex ante cap arrangement. The SRP states that the ACCC proposes to exclude a project from the main ex ante capex allowance effectively where the revenue required for the project is more than 10% of the revenue with the total capex allowance. The SRP also states that “the TNSP can apply to the ACCC for specific projects to be excluded from the ex ante allowance, even where this value threshold is not satisfied.” It appears that PB Associates are making recommendations outside the SRP in recommending projects be transferred from the ex ante cap to the excluded projects provision. Again this is inconsistent with the intent of the arrangement stated in the SRP.

If the same approach is applied to all TNSPs in their next round of revenue determinations then a very large number of projects will fall into the excluded projects regime. It therefore appears likely that involvement of the ACCC in determining the allowance for implementation of such a large number of excluded projects, will necessarily result in delays, at the very time such delays need to be avoided. Powerlink considers the approach being recommended by PB Associates is unlikely to provide timely delivery of reliability.

The objectives of the transmission regulatory regime to be administered by the ACCC include:

- Reasonable regulatory accountability through transparency and public disclosure of regulatory processes and basis of regulatory decisions; and
- Reasonable certainty and consistency over time of the outcomes of regulatory processes,...

We would urge the ACCC to be mindful of applying sound regulatory principles and consistency in the capex allowance regime as applied to all TNSPs.

