



RESPONSE TO

Consultant's Report on TransGrid's Revenue Cap Application

20 April 2004

Powerlink does not intend to make any comment on matters specific to TransGrid and their revenue application. However, we believe that the report prepared by GHD contains some matters of regulatory principle, relevant to all TNSPs, to which we must draw the ACCC's attention.

1. Overtime costs

As the ACCC is aware, market participants have been pushing for incentives on TNSPs to schedule network outages away from high usage periods in order to minimise the market impacts. The ACCC currently has a working group in progress aimed at developing suitable service standards to account for the market impacts of a TNSPs activities, and the broader issue of incentives related to market impacts was one of the transmission reforms agreed by the Ministerial Council on Energy.

TNSPs have consistently made it clear that pushing network outages away from high usage periods will result in higher overtime costs for our businesses. Indeed, we are now experiencing those higher costs as we have for some time been scheduling outages away from high usage periods in response to the calls from market participants. It is clearly inconsistent for the ACCC to be creating incentives aimed at pushing network outages away from high usage periods and at the same time putting a "regulatory squeeze" on overtime costs.

It is the ACCC's role to determine whether the benefits gained by the market outweigh the additional overtime costs imposed on the TNSPs, and a consistent approach should then be adopted with respect to incentives.

We are in no position to comment on the appropriateness or otherwise of TransGrid's overtime costs, but we would urge the ACCC to avoid looking at overtime costs in isolation and ensure that it adopts regulatory consistency from the wider perspective of the big picture.

2. Cost efficiency

Again, we cannot comment on what quantum of operating cost efficiencies should be imposed on TransGrid, but there are some fundamental flaws from a regulatory principles perspective in GHD's statements on this matter.

In particular, GHD puts forward the view that because the National Grid Company in the UK is subject to a 5% per annum cost reduction in its third regulatory period, then the same percentage reduction is reasonable for an Australian TNSP. It is not possible to draw any conclusions of that nature without being aware of how close to, or how far from, the “efficiency frontier” the two entities are. GHD has not produced any data in this regard. If the Australian TNSP were much closer to the efficiency frontier than NGC, then such an impost would be unjustified and inequitable.

Further, there are significant differences that can have an impact on maintenance costs as GHD recognises, such as the very low load growth in the UK compared to that in Australia.

In a regulatory model which seeks to have an incentive-based approach to operating costs, considerable diligence must be exercised in using benchmarks or comparisons to set the costs and the efficiency targets therein.

We would urge the ACCC to be mindful of applying sound regulatory principles and consistency in revenue determinations for all TNSPs.

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