Ref. 4/135/30

28 January 2004

Mr Sebastian Roberts
General Manager
Regulatory Affairs – Electricity
Australian Competition and Consumer Commission
GPO Box 520J
MELBOURNE VIC 3001

Dear Sebastian,

Post-Tax Revenue Model Electricity Module Handbook

We welcome the opportunity to comment on the ACCC's Post-Tax Revenue Model (PTRM) and Electricity Module Handbook. In general the spreadsheet and handbook is a useful addition to information available on the ACCC's electricity regulatory determination process.

However, it is essential that Powerlink and all interested parties understand whether the PTRM that the ACCC has released is in fact the template of the model that the ACCC will actually apply in its regulatory decision-making process. If the ACCC intends to apply some other model for regulatory purposes, there is limited value in using the PTRM and checking the integrity of the model.

We would appreciate clarification of this issue by the ACCC.

Notwithstanding this, and understanding that Powerlink has not delved heavily into the integrity of the model, we offer the following comments (attached) in relation to the PTRM and Handbook.

We would be pleased to meet with the ACCC to explain and discuss our comments further.

Yours sincerely,

Brennan

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POWERLINK COMMENTS

Page No.	Topic	Comments
7	Regulatory Asset Base Input	• Provision should be made for additional asset classes throughout the model. Three (3) asset classes are **not** adequate for modelling purposes. • There is no provision to incorporate Asset Disposals and Accelerated Depreciation. • The model should be capable of handling asset life inputs other than just whole years.
8	Residual Asset Value	• This value does **not** appear to be used in the model and should therefore be deleted, as it is confusing.
8	Tax Standard Life	• Tax standard lives are **not** typically the same as the standard life. As such, the wording in the Handbook should be amended.
8	Historical Tax Value	• The historical tax value is **not** the same as the opening asset value. As such, the wording in the Handbook should be amended.
8	Capital Expenditure Input	• It is recommended that the term "Capex" be replaced by "Capitalisation" as it more appropriately reflects the regulatory approach to capital expenditure. • Provision should be made in the model for specifying a different Capex (Capitalisation) for tax depreciation purposes.
9	Demand Forecast Input	• This input is used for price path trending. Energy Forecast (MWh) is more useful for price path trending than demand (MW). The model should be amended to reflect "Energy

Page No.	Topic	Comments
		Delivered Forecast Input”.

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10	Cost of Capital Parameters	• The Equity Beta (Row 22) should be based on the corporate tax rate "T" and not the effective tax rate "T_e".
13	Assets Sheet Rolling Forward the RAB and depreciation	• For clarity, row 57 words should be changed from "*Nominal Depreciation*" to "<u>Economic Depreciation</u>". • In the formula box in the Handbook at the bottom the page, for clarity the term "*depreciation over the period*" should be changed to "<u>Economic Depreciation</u>". • The statement in paragraph 2 – "*Further, ….. accumulated depreciation should not exceed the initial actual capital cost of the infrastructure*" is only valid if we are referring to "real" depreciation.
14	Rolling Forward the RAB and depreciation	• The statement in paragraph 1 – *"The capex data includes an allowance for interest during construction…. This is calculated at being half the vanilla WACC,"* is **not** correct. Financing costs during construction comprise 2 components: ❖ Half the Vanilla WACC which compensates for the 6 month period before capex (capitalisations) are included in the regulatory asset base; and ❖ Interest during construction to finance capital expenditure during the project construction period, which is included in the capex (capitalised) value keyed in. Paragraph 1 should be amended to clarify this.
21	Price Path Sheet	• This analysis should be based on "MWh" and **not** "MW".

Page No.	Topic	Comments
---	General	• A major issue of concern is that our analysis of the PTRM indicates that the model does **not** give the correct return (WACC) over the life of capital additions. Using a sample set of data, the PTRM's method of calculating the "return on assets" and the "return of assets" for revenue purposes, does **not** seem to allow a full return to be realised on asset additions. That is, in NPV terms, the returns appear to be **less than** the original asset value or WACC inflated value.
---	General	• There is no provision for calculating Financial Indicators and Ratios used for evaluating an indicative credit rating. • A Glossary of Terms should be added to the Handbook.