

# ACCC Public Forum on TransGrid and EnergyAustralia Revenue Cap Decisions



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## Key Messages

- New framework does not provide the level of certainty and is not as efficient as ACCC described.
- Reliability requirements have become less important than price.
- Escalation of construction costs are out of sync with reality.
- Inconsistent application of regulatory principles.
- ACCC has a misplaced focus on pricing outcomes





## New Framework

- ACCC appears keen to transfer ex-ante proposals into excluded projects category. Expectations from SRP was that this would only be in 'rare circumstances'.
- More 'excluded projects' does not provide certainty.
- Excluded projects – once a trigger is activated, overview and involvement by the ACCC and its consultants over 4 to 6-month period.
- Additional administrative and regulatory costs during the regulatory period.
- Code changes yet to occur to give effect to the new framework.



## Reliability at Risk

- Ex-post regime = ensure reliability, with some risk to TUOS price.
- TransGrid Draft Decision under ex-ante and excluded projects regime = price is sacrosanct, reliability is sacrificial.
- For projects in the 'excluded' category, the ongoing involvement by the ACCC and its consultants will result in delays.
- Delays in project implementation could place a TNSP's ability to meet its Code or other legislative obligations at risk.

NOTE: For Powerlink, reliability is NOT discretionary aka Somerville Report.



## Construction Costs

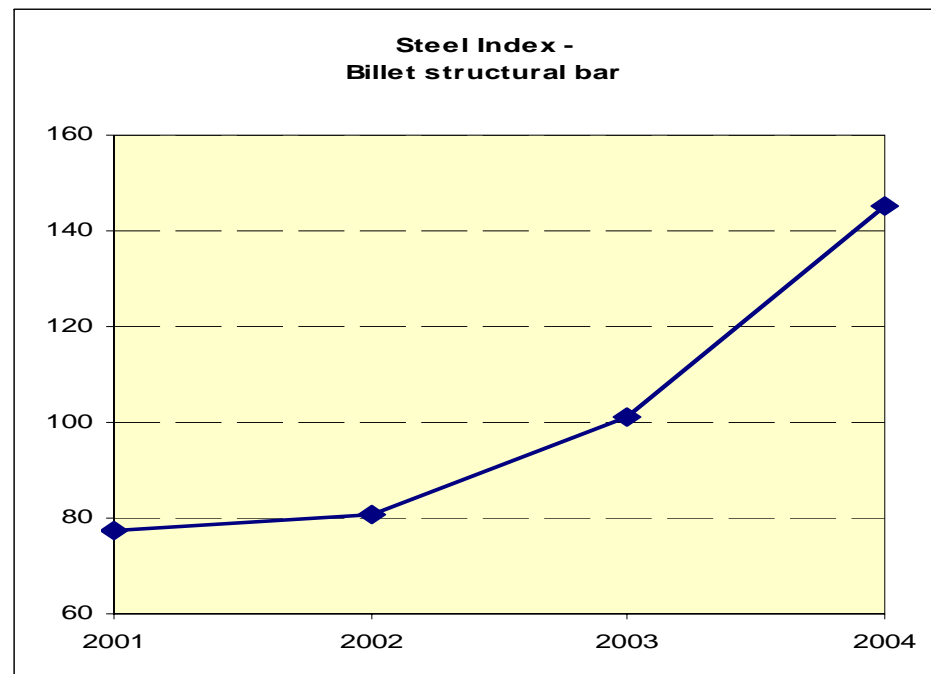
- CPI escalation does not accord with reality.
- Transmission line material costs have increased significantly in recent years:

### Steel

- @33% of line cost
- 87% increase since 2001

### Aluminium

- @25% of line cost
- 25% increase in last year





## Inconsistent Application of Regulatory Principles

- Consistency in applying regulatory principles is very important in providing a stable environment for investment.
- Some aspects of principles in this Supplementary Draft Decision raise concerns:
  - substitutability of capex between ex-ante, excluded projects and re-openers
  - willingness of ACCC to use re-openers to deal with investment uncertainty
  - Code does not even allow re-openers as contemplated





## ACCC's Focus on Pricing Outcomes

- ACCC has highlighted the implications of its Supplementary Decision on real transmission prices.
- ACCC misrepresents the true outcomes of its decision as it does not incorporate excluded projects.
- ACCC has over-stepped the mark – its role is to determine a maximum allowable revenue, NOT to establish price paths.



## Moving Forward

- Given what has transpired in the Queensland distribution networks, Powerlink is very concerned about a regulatory regime that does not give reliability priority.
- Queensland peak demand is still growing at about 6% pa. Further investment of about 6% pa is required to augment the network to ensure reliability is maintained.





## Moving Forward (cont'd)

- On the basis of principles established in the SRP, Powerlink's expectations of the split between ex-ante and excluded projects is:

