

# Reliability and Network Planning Panel

Mr Michael Rawstron  
General Manager Regulatory Affairs - Electricity  
Australian Competition and Consumer Commission  
PO Box 1199  
DICKSON ACT 2602

Dear Mr Rawstron

## **RE: Issues Paper – Review of the regulatory test**

Thank you for granting the Network and Reliability Planning Panel an extension of time to provide comments on your Issues Paper – Review of the regulatory test. A workshop with representatives of the electricity supply industry in Tasmania was held on 14 June 2002 to discuss the Issues Paper (report attached for your information) and the Reliability and Network Planning Panel discussed the report on the workshop at its last meeting, held on 21 June 2002. Due to the time constraints, the Panel has not been able to fully consider all of the relevant matters raised in the report and has therefore decided to provide only summary input in draft form. The attached report on the workshop represents the views of those attending the workshop.

The draft recommendations by the Panel are:

- The Regulatory Test focuses on network reliability, market benefits and capital costs. It should also take account of a number of other factors or options, such as possible pricing and direct payments arrangements for network services, customer and community service level expectations, market options and the requirements for consultation. Furthermore, the Regulatory Test needs to be regarded as one part of a broader network planning process that takes account of not only economic and reliability issues but also the social and environmental impacts of network upgrades and extensions that are dealt with through a separate, but complementary, land use planning and approval process. The inter-linkage between those two processes has important ramifications.
- There should be thresholds applicable at the project level, defined in terms of minimum service standards by location:
  - For projects below the threshold, a cost-effectiveness test should apply;
  - For projects at the threshold or above the threshold, the market benefit tests should apply.
- Setting of a cost based threshold should be left to the jurisdictional discretion as it will depend on the number of projects in the pipeline, the importance of these projects and the cost.
- The consultative process should provide:
  - a process to tease out possible alternatives to pure network solutions;
  - stakeholder feedback on the specifics of the recommended project proposal.

- In relation to the structure of the Test
  - The discount rate should be commensurate with the rate applied by commercial enterprises facing similar risks (low risk, but high impact) and the WACC used at the last regulatory revenue reset adjusted for changes in the environment.
- Consideration needs to be given to the fact that there is considerable uncertainty in regard to inputs (eg forecasts) and the test involves precise calculations, which can give a false sense of security while providing no guarantee that the assets involved will not be stranded at a later date.
  
- For consistency and clarity, guidance should be provided on the treatment of residual value at the end of the project life and how to treat the threat of stranded assets.

Yours sincerely

Dr David Harries  
**Chairperson**  
Reliability and Network Planning Panel

**28 June 2002**

**The Test as a Process**

