



16 May 2001

Mr Michael Rawstron
General Manager
Regulatory Affairs - Electricity
Australian Consumer and Competition Commission
P.O. Box 1199
Dixon ACT 2602

Dear Michael,

Powerlink Reset – PB Associates Network Asset Valuation Review

Thank-you for inviting SPI PowerNet's comments in relation to the recent consultancy report by PB Associates on Powerlink's network asset valuation.

In its report, PB Associates identifies two possible approaches to capturing movements in replacement costs - indexation using a composite industry specific index or indexation at CPI together with periodic revaluation.

To the extent that tracking replacement costs is an ongoing imperative, either approach could, in theory, be used. However, SPI PowerNet believes that PB Associates' comments on indexing the RAB are misguided in practice and are not cognisant of how indexation relates to the post-tax nominal framework. This is because:

- irrespective of how the RAB is escalated from its initial valuation upon commencing under the Code, the NPV of the future net revenue must equal the current capital value - saying that the replacement costs change at a rate different to CPI does not change the requirement on network users to compensate the network owner for the use of the network on a fair and reasonable basis;
- construction of a composite industry specific index would appear to be a particularly difficult and controversial exercise;
- beyond its usefulness in determining initial asset valuation upon commencing under the Code, periodic revaluation is generally of dubious value because the revenue cap is based on depreciated replacement cost, not replacement cost per se - in view of this, periodic replacement cost valuation is unnecessary for ensuring that inefficient network bypass does not occur; and

- more generally, the current approach of indexing the RAB to CPI would tend to promote intergenerational equity compared to indexing at below CPI for a mature network comprised of long lived assets (greater than 40 years) of diverse vintages - this conclusion rests on the use of a linear depreciation schedule.

If you have any questions or comments regarding this letter please contact me on 03 9567 7465.

Yours sincerely,

Matthew Cole
Manager Regulated Revenue
SPI PowerNet Pty Ltd
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