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Regulatory Affairs - Electricity
Australian Competition & Consumer Commission
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FILE No:

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MARS/PRISM:

Dear Mr Rawstron

The South Australian Government would like to take this opportunity to comment on the issues that have arisen to date on the application by ElectraNet SA for a revenue cap for the regulatory period 2003-2008, including the reviews conducted by Meritec.

The Government's expectation is that the Transmission Price Review should lead to an affordable, reliable and financially sustainable electricity network in South Australia. We expect the review will aim to strike an appropriate balance between the incentives for ElectraNet to undertake adequate investment to meet demand and the impact of this investment on consumers.

In that context there are two issues that the South Australian Government would like to raise with the ACCC.

ElectraNet SA has requested that a value of \$215.3 million be included in their asset base, as the estimated value of easements. This number consists of easement establishment or transaction costs of \$104.3 million and compensation paid to landowners of \$111.0 million, from 30 June 1999, which would then be rolled forward to 1 January 2003.

The Government is concerned with the impact on the South Australian community of the inclusion of assets that are never likely to be replaced, in the manner suggested by ElectraNet.

It is recognised that there is a need to include a fair and reasonable value of easements in the asset base. Although the valuation of \$3.1 million included in the jurisdictional Regulated Asset Base can be argued to be inadequate, a value of \$215.3 million appears excessive.

The South Australian Government is of the view that easements should be valued on the basis of actual historic compensation paid to landholders. Such a valuation was carried out by SPI PowerNet for the purposes of their application for a revenue cap decision. This showed a valuation of easements of \$79.7 million at 1 January 2001, a stark contrast with ElectraNet's claim of compensation costs of \$111 million.

In the event that such data is not available in South Australia to conduct a similar valuation, the South Australian Government proposes that the ACCC adopt an approach that discounts the easement value in Victoria for the difference in real estate values, and value the easements in South Australia accordingly.

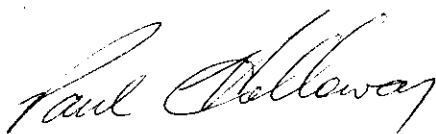
Further, ElectraNet SA has claimed a transaction cost amount of \$104.3 million. Whilst, this amount has subsequently been discounted to \$36 million by Meritec to be rolled in to the asset base in 1999/2000, the South Australian Government considers that the ACCC should not include any allowance for transaction costs. This view has been formed as it is likely that these costs would have been capitalised along with the total cost of building the asset at the time of the establishment of the easement and the construction of the asset.

Underlining this point is the lack of information available on the transaction costs of establishing easements. SPI PowerNet in their application state that they have comprehensive data on compensation paid for easements, however, they have no data on the transactions costs. It is considered that this is an indication that the acquisition costs were included in the capitalised cost of obtaining the easement. Therefore, it is inappropriate for the ACCC to include transaction costs in the Regulated Asset Base.

The final point that the South Australian Government would make is the need for consistency in the setting of the *Weighted Average Cost of Capital (WACC)* figure across all jurisdictions. The Government notes that a WACC of 8.83% was set for Powerlink in November 2001, substantially less than the 10.03% requested by ElectraNet SA. Therefore, the Government considers that a WACC of significantly less than 10.03% should be sufficient to ensure the provision of an efficient and reliable transmission network in this State, considering the comparable nature of the networks in Queensland and South Australia.

On behalf of the Government, I would like to thank the ACCC for the opportunity to comment on these issues.

Yours sincerely



Paul Holloway
Acting Minister for Energy

5 September 2002