



Tasmania

DEPARTMENT of  
TREASURY and FINANCE

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FILE No:
DOC:
MARS/PRISM:

Mr Sebastian Roberts  
General Manager  
Electricity Group Regulatory Affairs Division  
Australian Competition and Consumer Commission  
PO Box 1199  
DICKSON ACT 2602

Attention: Sabesh Shivasabesan

Dear Mr Roberts

### TRANSMISSION REVENUE CAP DETERMINATION

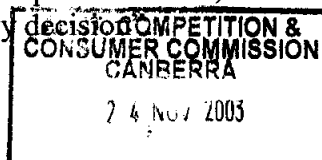
I refer to the recent telephone conversation between officers of our respective organisations in regard to the under-recovery of Transend's capital expenditure for the 2003 calendar year, for which an amount was sought in its revenue cap application.

As the Commission is aware, during 2002 the Tasmanian Government decided to extend the Regulator's existing Price Determination until 31 December 2003. This occurred following extensive consideration of all the relevant issues, including the State's forthcoming entry to the NEM and the Commission's setting of a revenue cap for Transend.

In giving effect to the Government's decision to extend the existing Price Determination, regulations were made that specified principles to be followed by the Regulator in making the extension Order. These principles encompassed matters relating to the wholesale, transmission, distribution and retail aspects of the existing Price Determination.

In regard to the provision of transmission services, the approach adopted by the jurisdiction was to maintain the 2002 Annual Aggregate Revenue Requirement (AARR) for Transend in real terms during 2003, but adjusted for any under or over recoveries and for the effect of actual capital expenditure relative to the forecast capital program approved by the Regulator. This ensured that, by continuing the Regulator's existing approach to dealing with such adjustments, neither Transend nor its customers would be advantaged or disadvantaged.

In its draft decision, the Commission has specifically excluded under-recovered revenues associated with the one-year extension of OTTER's 1999 price determination, noting that if the Commission "provides the additional return on capital and return of capital for 2003, it will, in effect, be reversing the effect of the Tasmanian government's policy decision."



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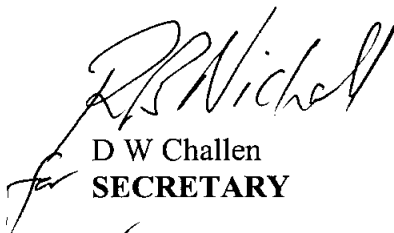
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The Department of Treasury and Finance wishes to clarify that the exclusion of the under or over recovery of revenues arising from Transend's actual capital expenditure undertaken in 2003 does not reflect the Government's policy position in regard to this matter. Rather, it was expected that, consistent with the current Tasmanian regulatory approach, the revenue effects of any under or over recovery of capital expenditure in 2003, which Transend estimates as being an under recovery of \$2.44 million, would form part of the 2004 revenue cap.

Should this matter require further clarification, the Treasury contact officer is Nic Waldron. Nic may be contacted on 03 6233 5139, or by email at [nic.waldron@treasury.tas.gov.au](mailto:nic.waldron@treasury.tas.gov.au).

Yours sincerely



D W Challen  
**SECRETARY**  
18 November 2003