

# ACCC's Supplementary Draft Decisions: TransGrid and EnergyAustralia

Bess Clark – Friday 18 March 2005



# Focus of presentation

- No comment on whether the proposed revenue outcome is right or wrong
- Focus on bigger picture issues
  - Implementation of SRP
  - Excluded projects
  - General observations
- Conclude with key messages

# Implementing the SRP

- Task facing ACCC should not be under-estimated
  - Recognition on all sides that ‘right answers’ are not easy to find
- SRP introduced new approaches, including
  - ex ante allowance
  - excluded projects
  - re-openers
  - ... each raises implementation issues
- SRP update conducted at the same time as TG and EA revenue reviews
  - NSW TNSPs use a different capitalisation and reporting model to other TNSPs
  - Adds complexity in implementation

# Implementing the SRP cont...

- Different 'regulatory models' for pre- and post- SRP
  - Reviews will be conducted simultaneously in 2008/9 (Transend; EA and TransGrid)
  - Different issues for SRP implementation for each TNSP
  - Numerous and varied transitional issues for each TNSP
- Need to understand the different treatments

# Implementing the SRP cont...

- Given difficulty of the ACCC's task – some suggested 'do's' and 'don'ts'
- **Don't** (please)
  - Establish precedents in the TransGrid's and EA reviews which 'must' then be applied to other TNSPs
  - Ignore previous regulatory 'compacts' in a rush to apply new thinking and approach of SRP

# Implementing the SRP cont...

- **Do** (please)
  - Maintain a degree of flexibility in developing the implementation of the SRP
    - ensuring consistency with SRP ‘principles’ and/or
    - explaining any departure from principles and/or
    - updating principles where appropriate
  - Revisit the information requirements guidelines and models, to ensure inputs, modeling and reporting deliver the required outcomes for each decision
  - Share with industry and interested parties the burden of getting the implementation right

# Implementing the SRP cont...

- Assessment so far?
  - Too early to say whether inappropriate precedents will be set and existing 'compacts' set aside - but TNSPs are naturally concerned.
  - Can ACCC provide some comfort in the TransGrid and EA decisions?
  - Look at the implementation:
    - Excluded projects

# Excluded projects & Mini ex-ante caps

- A good example of implementation challenge!

# Excluded projects & Mini ex-ante caps ...

- 'Mini caps' undesirable and unnecessary:
  - Introduce a different underlying incentive than the rest of the cap, for no apparent reason
  - Administratively burdensome
  - Complicated for customers, TNSPs, regulators
- Why would ex ante capex be efficient and excluded projects capex be inefficient?
  - Can we rely on improved business processes and work practices driven by ex ante cap to ensure that excluded projects are at least as efficient as other capex carried out by the business?
  - Consider all the options
- Suggest that excluded project arrangements only alter *existing* revenue control – no 'mini caps'

# Excluded projects: key problems

- If the mini-cap issue is resolved, residual issues with excluded project approach appear to be
  - agreeing which projects should be excluded
  - defining triggers
  - efficiently processing a request

# Excluded projects: Whether or not to exclude

- ACCC decision on whether or not to exclude is a 'cliff-hanger' – if a project is highly uncertain it could be:
  1. an excluded project or
  2. removed altogether
- The fact that the decision appears to be a cliff-hanger suggests that the underlying framework needs further work
- Is the 10% rule properly applied...and is it the right rule?
- Perhaps there is a genuine concern on low probability/high risk events (despite 10% rule)

# Excluded projects: defining triggers

- Pleasing that the ACCC accepts that things may change and more appropriate to have triggers than defined solutions in advance
- Pleasing that ACCC has made it clear that the ex ante allowance is *not* project specific
  - Allows for reprioritisation, changes/requirements not presently anticipated, scope for innovative solutions etc
- ...but how is this 'bucket of money' reconciled to the 'trigger considerations' and 'related projects'

# Excluded projects: efficiently processing a request

- Transend is pleased that the ACCC
  - has outlined the proposed excluded project review process
- Transend is concerned that ACCC
  - expects review of excluded project to take ‘about four to six months’ (page 121)...perhaps there are other ways of implementing excluded projects approach?
  - proposes to add additional consultation requirements to regulatory test consultation process ... the regulatory test process could address all stakeholder requirements?

# Excluded projects: efficiently processing a request cont..

- Risk of higher compliance costs and project delays if the excluded project assessment process
  - delays implementation of solutions
  - leads to intrusive ex post reviews of capex-to-date
  - leads to mini-resets
- Undesirable for customers, transmission companies, regulators

# General observations

# Capital and depreciation models

*ex ante cap will be expressed as a profile of spending for each year of the regulatory period. ... the profile of spending ... will be used to determine a TNSP's annual depreciation ... (TG draft)*

- Change from 1999 DRP's capital and depreciation provision, not mentioned in SRP or supporting documentation
- Some benefits in moving to as-spent approach for forecasting capex
- However, depreciation based on spend may not be appropriate for all TNSPs
- Is there another model?  
Clear requirement for further consultation before resolving implementation

# Cost base changes

- Concern that efficient future costs are considered to be those that are presently prevailing
- => Cost of prudent investments may rise
- ACCC has disallowed TG's contingency allowance and suggests that this be dealt with in 'dynamic' adjustments to capital forecast
- Should TG have the opportunity to re-submit a dynamic adjustment now ACCC has finalised requirements on this matter?

# Pass-throughs

- Transend pleased that ACCC has reintroduced pass-throughs – sensible variation from SRP
  - Needs to be reflected as such
- Scope for more than just tax events in pass-through rules. Administratively less burdensome than re-openers, and can provide customers, TNSPs and regulators with better outcomes
  - eg pass-through rules for network support costs

# Link to opex allowance?

- Two part process for EA and TransGrid creates *Compendium of decisions*
- Not clear how previous opex allowance changes as a result of
  - changes to ex-ante capex allowance
  - any excluded project

# Divergence from SRP

- *parts of the framework for the assessment of TransGrid's application were agreed with TransGrid prior to the release of the SRP and therefore differ from the SRP (TG p 12)*
- Not clear which parts are those agreed with TG?
- Should be clear.

# Concluding comments

- Implementation of SRP is not easy – and is a task best shared with industry and interested parties
- Need for on-going flexibility and recognition of existing compacts and transitional issues
- Excluded projects example illustrates difficulty of implementation
  - Framework may not be properly developed
  - Could be better ways of meeting objectives described in SRP
- ...Keep an open mind