



Comments on the ACCC's Draft Decisions for EnergyAustralia

Stephen Clark – Friday 18 June 2004



TRANSEND

Focus of presentation

- Comments made in relation to TransGrid review also apply to EA
- Expand on concerns with ex post review
- Consider approach to opex
- Concluding comments

Ex post review of capex

- Draft Decision does not consider why companies have apparently spent capex inefficiently?
 - Incentive to over-invest?
 - Inherently inefficient?
 - Bias in ACCC's approach?
 - Guilty until proven innocent – companies punished if they cannot demonstrate that capex is efficient
 - Insufficient resources to assess whether capex has been inefficient – note GHD could not reach conclusion

...Implications

- Can we rely on incentive properties of regulatory regime to ensure that capex is efficient?
- Or will regulator always conduct ex post review
- Will the penalty always be arbitrary or will even more resources be devoted to ex post reviews?
- Will this discourage large projects – which have substantial “return on assets during construction

Approach to opex

- For EA, ACCC has identified inefficiencies in historic operating costs
- And – therefore – does not impose a 2% efficiency factor in the forthcoming period
- BUT –these two approaches are not equivalent
 - ACCC is right to remove inefficient opex to obtain appropriate starting point (perhaps EA?)
 - ACCC is wrong to impose 2% efficiency factor which anticipates future efficiencies (TransGrid, Transend)

...Way forward on opex

- Clear statement of ACCC's approach including
 - Setting opex allowances and role of “efficiency factors”
 - Can we rely on incentive mechanism to ensure that actual opex is efficient – or will ACCC implement an ex post review!
 - How does the efficiency carry-over mechanism work?

Concluding comments

- Ex post review on capex has implications for future investment
 - Has the ACCC considered this?
 - Much more intrusive regulation – not incentive based
- ACCC's approach to opex is unclear – future direction is worrying