



Mr E J Hall
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Attention: Rob Prydon/Gary Henry

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Dear Mr Hall

DISTRIBUTION PRICING

- **Draft Determination - Regulation of Electricity Distribution**

The opportunity to comment on this important paper is appreciated.

TransGrid, as you are no doubt aware, is not in the Electricity Distribution business in NSW, but has recently been involved in a regulatory revenue cap determination under the jurisdiction of the Australian Competition and Consumer Commission. This particular decision has had numerous implications upon the operating environment of regulated utilities in the National Electricity Market.

TransGrid is of the general view that regulators should work within a clearly defined legal framework to:

- 1 enable reasonable risk adjusted commercial returns to regulated entities;
- 2 provide a low price environment to customers (comparable to that delivered by a competitive market);
- 3 provide incentives for efficiency improvement over time.

Our organisation encourages:

- positive incentive based regulation rather than rate of return regulation;
- regulatory transparency and consistency (in intent and regulatory models); and
- full and proper consultation processes where appropriate debate and extensive justification is essential prior to any significant changes in the application of regulatory methodologies.

Further comments on your Draft Determination are attached, and I trust that these comments will be of assistance to the Queensland Competition Authority in advancing these important regulatory issues.

Should you wish to discuss any matter made in this submission, please contact Mr Philip Gall, Manager/Regulatory Affairs, on (02) 9284-3434.

Yours sincerely

D G Croft
Chief Executive

Attach.



ADDITIONAL COMMENTS

In terms of the Draft Determination we are encouraged to see a transparent and thorough consultation process in the compilation and construction of the document. Overall, TransGrid believes the paper is well structured, informative, and relatively clear.

In particular, TransGrid is encouraged by the Queensland Competition Authority's (QCA) attempt to develop innovative and rewarding incentive regulation.

However, TransGrid would like to make a few additional points and these involve the following specific comments:

- That the parameters established in obtaining your WACC calculations and the regulated rates of return do not lead to a diminution or curtailment of new capital investment (ie. with a Pre-Tax Real WACC of only 7.02%).
- Valuing easements at historical cost may need further consideration and consultation. It would be beneficial for the QCA to clearly illustrate how the historic cost amounts were actually derived (in, say, another appendix). In other words, not knowing the derivation and periods in which the easement acquisition costs occurred, there is uncertainty as to the reasonableness of the values, taking into consideration the preference for either the Depreciated Optimised Replacement Cost (DORC) or deprival value approach to asset valuation in the dynamic legal, environmental and community-oriented environment in which we all operate.

Whilst wanting to avoid future price shocks, any further adjustment will certainly be more unpalatable to consumers, if it is primarily based upon a theoretical issue that the regulator has not come to a final landing on. Once more these comments are premised on a lack of knowledge of the actual easement cost profiles of both Energex and Ergon.

- In terms of the roll forward of the capital asset base (Section 5.5), no mention is made of the flow-on effects and impacts of the introduction of the New Tax System, including the Goods and Services Tax. Whilst most of the short-term effects may have already occurred by 2001/02, consideration of the longer-term impact on capital costs and financial capital maintenance should at least be mentioned. A greater emphasis on this important issue would further assist the QCA in applying the principle of regulatory consistency *vis-a-vis*, the Independent Pricing and Regulatory Tribunal, the Victorian Office of the Regulator General, and the Australian Competition and Consumer Commission (ACCC) who have each deliberated on this issue.
- In terms of distribution asset lives, a review process sponsored by the NSW Treasury is currently looking at updating their "Policy Guidelines for Valuation of Network Assets of Electricity Network Businesses" paper. TransGrid would like to draw your organisation's attention to the imminent outcomes of that review as an opportunity to obtain some consistency.
- For the sake of accuracy, Table 6.11 (page 98) might need to be amended to reflect that the ACCC's final revenue determination for TransGrid utilised an expected inflation rate, as stated in the text on page 96, to be 3.15 per cent, not the existing 2.5 per cent.