Debriefing on a Tariff Review

Mark A. Jamison
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Transener (B): The First Tariff Review

- 1998 price review for transmission company (Transener) in Argentina
- Prices governed by concession from 1993-1998
- Regulator (ENRE) initially proposed cutting revenue by 25 percent, based on 1993 concession agreement
- Transener objected, saying 1992 law required “just and reasonable” prices

Issues in the case

1. What should be the legal basis for prices?
2. Should Transener’s revenues be dependent on line loss charges?
3. How should non-regulated activities be treated for rate making?
4. How should Transener’s assets be valued?
Issues in the case (cont.)

5. What should be Transener's WACC?

6. How much annual revenue should ENRE allow Transener?

What did they do?

• Dispensed with concession rules
• Line loss was fixed at $33.17 million
• X transition to 1 by 2008
• Assets valued at $310.9 million, using government’s valuation at the time of privatization
• RoE set at 10.54% (Transener asked for 14.39%)
  ▪ Lower R_F and country risk
• Revenue of $94.6 million

Source

• Juan A. Legisa (President of ENRE), Second Generation Issues in the Reform of Public Services, InterAmerican Development Bank, October 1999.