POWERLINK
PROPOSED ACCESS ARRANGEMENT

SUBMISSION BY

THE ENERGY USERS' ASSOCIATION OF AUSTRALIA AND BHP COAL PTY LTD

May 2001

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Executive Summary

The EUAA considers that the Powerlink application is deficient in many areas, especially in the provision of information on identifiable costs. Powerlink's application also contains ambit claims that have not been substantiated.

Powerlink has also sought to magnify the disadvantages that it perceives as stemming from geographical and locational factors, and has exaggerated the potential competitive risks that it is exposed to from gas pipelines that are yet to be constructed, let alone given project approval. These claims should not be accepted uncritically by the ACCC.

The EUAA considers that there is significant scope to reduce transmission costs in Queensland, and these ought to be comparable to those applying in New South Wales, which has had the benefit of an ACCC regulatory determination.

The EUAA **recommends** the following:-

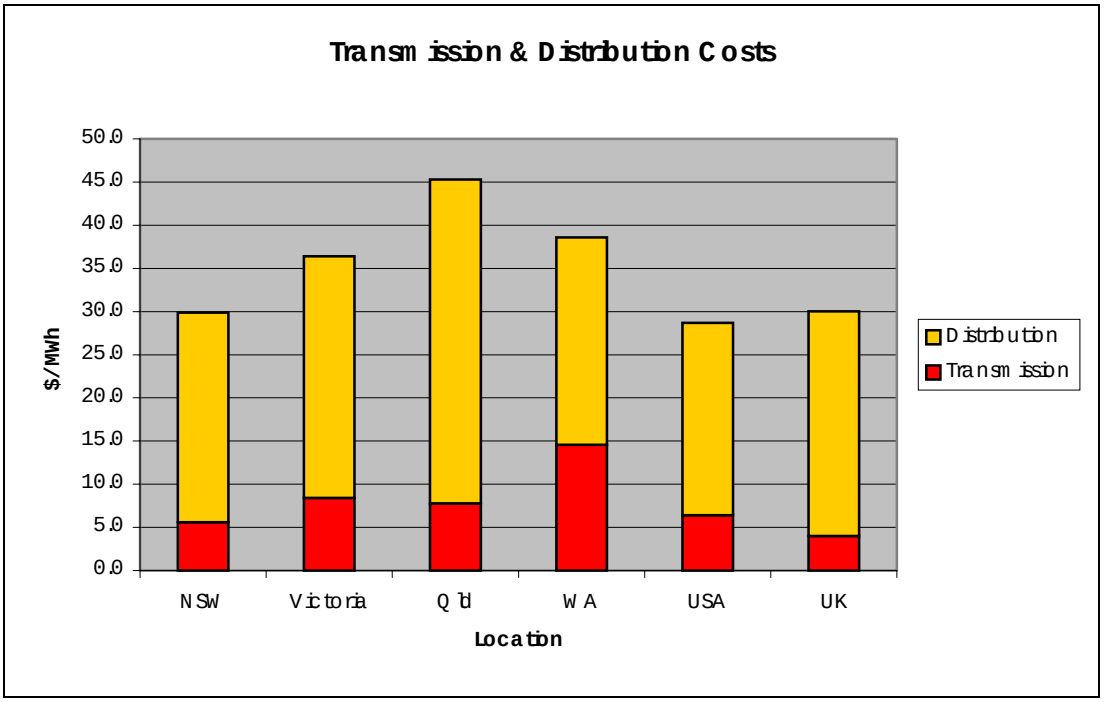
i. The ACCC must assess the separation of Powerlink's regulated assets from non-regulated assets and permit only regulated assets and cash to be included in the regulatory asset base.
ii. The ACCC must examine the capital contributions issue to assure users that they have been fairly assessed and refunds properly determined, in terms of the National Electricity Code (NEC).
iii. The ACCC must require more information disclosures on Powerlink's capital expenditure proposals sufficient to enable verification of the prudency of investment proposals, based on least costs options and standard NEC/ACCC regulatory principles.
iv. The ACCC must require Powerlink to apply its principles on competitive augmentation and should extend these to require fully transparent and market-based assessments.
v. The ACCC must value Powerlink's easements for regulatory purposes at actual costs (non-indexed and non depreciated).
vi. A pre-tax real WACC of 6.25% and a post-tax nominal WACC of 7.25%, comprising
    - a risk free rate of 5.5%
    - a market risk premium below 5.5%
    - an equity beta of less than 1.0.
vii. More data needs to be provided to enable assessment of all identifiable costs (including, especially opex and capex).
viii. Powerlink needs to propose minimum service standards along the lines established by the ACCC for TransGrid, including incentives for better service delivery.

(1) Introduction

The Energy Users' Association of Australia (EUAA) welcomes the opportunity to provide its views on the proposed access arrangement by Powerlink to the Australian Competition and Consumer Commission (ACCC).

The EUAA is concerned that the Powerlink application, which seeks a determination for regulated revenues for the period 1 January 2002 to 30 June 2007, makes much of both its claimed geographical and locational disadvantages, as well as the potential competition from the proposed PNG gas pipeline. We believe, however, that Powerlink faces a more certain future than it has chosen to portray. Much of the potential risks have not been substantiated nor detailed. A high load growth and a lower susceptibility to seasonal changes in demand for electricity than, say, Victoria or South Australia are, we believe, factors that would tend to offset these stated geographical and locational disadvantages. Overall, we consider that transmissions costs in Queensland should be comparable with those applying in New South Wales.

On the basis of the chart (shown below), comparing transmission costs in Australia and those in the USA and UK, the Queensland average transmission tariffs are very high and could be some $2.50/MWh lower than current levels (i.e. comparable to NSW average tariffs, which have had the benefit of an ACCC regulatory determination). An average transmission tariff of around $5.00/MWh in Queensland would mean that the State's transmission costs would be more competitive with tariffs in other States and more in line with average tariffs in USA and UK. This is an important issue given the export focus of Queensland industry.



Source: Bardak Group

The EUAA submission covers several major aspects of Powerlink's access arrangement application and these are discussed below.

(2) Regulated Asset Values

Based on its substantial experience with regulatory reviews throughout Australia by both the ACCC and State regulators, the EUAA is acutely aware that network owners have strong incentives to inflate the value of assets incorporated into the regulatory asset base. From the electricity networks users' point of view, the information and resource asymmetry problems are significantly accentuated by the regulators' use of rate of return regulation and the application of the Depreciated Optimised Replacement Cost (DORC) asset valuation methodology.

Against this background, the EUAA would expect the ACCC to establish, through its independently-commissioned asset valuation study of Powelink, clear outcomes on the following issues.

(2.1) Non-Regulated Assets:

The amount of assets that are used for unregulated activities and the extent to which they have been excluded from the regulatory asset base. Powerlink's application refers to non-regulated revenues, but it is not clear whether Powerlink expects this revenue category to grow. The experience with TransGrid – and other electricity distribution network businesses in other States – is that unregulated assets are expected to grow in the future as they take on an increasing amount of non-regulated activities and certain existing major network assets and costs are allocated to the unregulated category (e.g. new contestable entry or exit assets). In addition, some assets, such as existing microwave communications could be considered to be unregulated assets if some frequencies used by that equipment are licensed to other businesses (in the contestable area).

(2.2) Capital Contributions

Powerlink claims that there are no assets in the regulatory asset base which are funded by capital contributions, as QERU had introduced a policy to refund customers the unexpired value of their original capital contribution, "as determined by QERU" (page 78) and that "whilst Powerlink will be continuing to pay these refunds over future years, Powerlink accrued the NPV of those future payments as an abnormal item in its accounts for the 1997/98 and 1998/99 financial years" (page 78). We would expect the ACCC to examine this issue and provide an assessment to enable users to satisfy themselves that users' capital contributions have been fairly assessed and refunds properly determined in terms of the National Electricity Code. We would expect to be able to accurately see what are the cash flow impacts on Powerlink, arising from the payments refunds. We note also that the previous

decisions on this matter by the QERU were not made by an independent regulator or in a fully transparent way.

(2.3) Capital Expenditure

Powerlink's application provides little details of proposed capital expenditures other than numerical calculations. There is no information on the proportions of expenditure allocated for refurbishment or new capacity. Little if any information is provided on the costs of each project, nor on the timing of project construction and completion. There is no justification provided other than mathematical calculations (Powerlink's 'reasonableness test'). This is of serious concern to the EUAA, as Powerlink is claiming an annual average of $155 million in capital expenditure for the period 2002/03 to 2006/07. Given the size of the proposed capital expenditures and its significant impact on transmission prices, we would have expected full and proper disclosure of the information so that careful review of each of the projects proposed can be undertaken to ensure their prudency and appropriateness. We would also have expected to be able to verify Powerlink's proposals against the distributors' proposed capital expenditures to ensure consistency.

In the ACCC's final decision on TransGrid (1 February 2000), the Commission stated that:-

> "…. it would be concerned if network planning processes were conducted in such a way that only a network augmentation option could be considered in response to a concern over the reliability and adequacy of the existing network…. . The Commission noted that it was considering developing a number of principles to manage the regulatory uncertainly associated with new investments. For example:-
>
> - ✓ that the processes leading up to the network investment fully explore all options and which give sufficient detail and opportunity for other contestable options to be identified in a timely manner;
> - ✓ that the processes provide an adequate and competitively neutral opportunity for other contestable options to contract with the network (or other participants) in lieu of network investments;
> - ✓ that construction of the network is undertaken on a contestable basis;
> - ✓ that network prices are used to signal the need for additional capacity with a view to encouraging efficient utilisation of existing capacity from the demand side; and
> - ✓ if the network expansion has been made on the basis of a negotiated connection agreement, rather than on the basis of the NEC requirements, then the connection agreement should also specify how the two parties have agreed to finance the new investment."

We would expect the ACCC to apply these principles in assessing the prudency of Powerlink's capital expenditure proposals. In this regard, the EUAA points to regulatory experiences elsewhere, particularly in the U.K., where utilities' anticipated capital expenditure proposals have consistently exceeded (sometimes by quite substantial amounts) actual outcomes. The EUAA would also request the ACCC to ascertain whether the level of capital expenditure, which Powerlink had expected to undertake (and which was approved by the Queensland interim regulator, ERU) up to the period 31 December 2001, was in fact spent. The ACCC should ensure that Powerlink is not permitted to earn a return on, and of, that expenditure twice – i.e., as regulated expenditure under ERU's previous determination, as well as that under the Commission.

Moreover, it is worth noting in relation to the above principles, the EUAA's support for the ACCC to take these further by requiring fully transparent processes to assess competing alternatives to network investment, as well as market-based (or at least open tenders) for such alternatives. We believe that the ACCC has erred in not taking these additional steps and urge them to do so now.

(2.4) Easements

The EUAA is concerned that Powerlink is seeking to raise ERU's easement valuation from $114 million to $198 million. This is ostensibly because "The ACCC, at a recent asset valuation forum, indicated that an indexed DAC approach is considered the likely valuation approach it will apply rather than an ODRC valuation. Powerlink has undertaken a study which highlights that its current easement values are below an indexed DAC value" (page 58).

In the Commission's final decision on TransGrid it discussed the issue of the regulatory treatment of easements as follows:-

> "As noted above, SKM confirmed that TransGrid's ODRC easement values rose from $312 million in 1996 to $402 million in late 1998. SKM went on to comment that electricity easements have unique characteristics:
>
> - a registered [electricity] easement is a right to construct, operate and maintain a power line and doses not involve ownership of the land under the line;
> - a registered easement is usually granted in perpetuity. The corporation thereafter does not have to provide for replacement of the "asset" in the future, nor to provide for depreciation;
> - there are only minimal administration costs to the corporation associated with maintaining or operating the 'asset'. The original vegetation clearing and access track construction are included in the line cost. Regrowth control and access track maintenance are included in the cost of line

maintenance as it is mainly performed to ensure safety and the security of the line;

- if the line is removed the value in the books cannot necessarily be recovered. If an easement is extinguished it may be possible to recover the compensation paid to the original [land] owner or some greater amount but even this is dependent on the present owner agreeing to pay it. In addition, some easements for future lines are in developing areas where rezoning of areas may take place. These may not be able to be used as planned for future lines due to environmental or political pressures.

SKM stated that these characteristics meant that it could be argued that the use of deprival value (including ODRC concepts where the value of the easement is based upon the value of the property over which it sits) is inappropriate in its application to this class of asset, particularly in the context of how a regulator should treat the issue of 'windfall' gains to the network generated by increases in the underlying property values.
SKM noted that the approaches presently used to value easements vary from one jurisdiction to the next and that it was desirable that a common methodology be developed for future valuations. The issue will become an increasingly important one, as the values attributed to easements are likely to continue to rise at rates in excess of the general inflation rate.

The Commission notes SKM's concerns and stated that this issue is germane not only to transmission networks. The Commission is concerned that the traditional basis for valuing such assets many serve to provide network owners with windfall gains which do not necessarily reflect the risk-adjusted cash flow rate of return appropriate to the efficient operation of those businesses."

The EUAA is concerned that the ACCC and other jurisdictional regulators have not yet determined a common methodology for the regulatory valuation of easements. Certainly the Commission's draft regulatory principles (which appears to favour DORC) is entirely inappropriate as stated by SKM above. Indeed, it is largely for the reasons referred to above by SKM that the Victorian Regulator General has valued the existing easements of electricity distribution network businesses at zero, whilst in the case of NSW businesses, IPART had valued easements at (non-indexed and non-depreciated) actual costs (i.e. $10 million)! IPART stated that there is no economic benefit in valuing easements at anything other than their actual costs.

Some EUAA representatives were present at the ACCC's Asset Valuation Forum in Melbourne in June 2000, and (contrary to Powerlink's claim) there is no recollection whatsoever that the ACCC indicated that an indexed DAC approach is considered likely.

Against the above background, the EUAA strongly considers that there is no basis to the claimed valuation of easements at either $114 million (ERU) or $198 million

(Powerlink). Valuation of Powerlink's easements should be at actual costs (non-indexed and non-depreciated) and the ACCC's consultants should be requested to examine the relevant documentation or transactions involving the acquisition of easements by Powerlink. Any notional value or estimate is not acceptable for regulatory purpose and would expose transmission customers to considerable risk of overvaluation.

The EUAA therefore makes the following **recommendations**:-

1) The ACCC must assess the separation of Powerlink's regulated assets from non-regulated assets and permit only regulated assets and cash to be included in the regulatory asset base.
2) The ACCC must examine the capital contributions issue to assure users that they have been fairly assessed and refunds properly determined, in terms of the National Electricity Code.
3) The ACCC must require more information disclosures on Powerlink's capital expenditure proposals sufficient to enable verification of the prudency of investment proposals, based on least costs options and standard NEC/ACCC regulatory principles.
4) The ACCC must require Powerlink to apply its principles on competitive augmentation and should extend these to require fully transparent and market-based assessments.
5) The ACCC must value Powerlink's easements for regulatory purposes at actual costs (non-indexed and non depreciated).

(3) Rate of Return

The EUAA presents its views below on the key financial parameters contained in Powerlink's application.

(3.1) Risk Free Rate

The most recent ACCC regulatory determination on energy transmission (EAPL, 21 December 2000) proposes a nominal risk free rate of 6%, the same rate as that currently proposed by Powerlink. However, since that time official interest rates have been reduced on three separate occasions and are some 1.25% lower. The expected medium-term inflation rate has also declined, from 2.9% to 2.5%. The relevant 40-days average for the 5-year Commonwealth bond rate, which has a lower built-in premium to compensate for inflation risk and is used as a proxy for the risk free rate, as it is consistent with an access arrangement period of 5 years, is around 5.5%.

We therefore **recommend** a risk-free rate for Powerlink of 5.5%.

(3.2) Market Risk Premium

The ACCC has argued in recent gas access arrangements decisions (e.g. Central West Pipeline, 30 June 2000 and EAPL, 19 December 2000) that the market risk premium, which together with the risk free rate and firm specific equity beta determine the expected cost of equity in the regulated business, may be declining and that an appropriate rate would be 5.5%. Empirical evidence was provided in ACCC documentation. Powerlink, however, recommends a market risk premium of 6%, based on research by Professor Robert Officer. Nevertheless, it is noted that the research cited does not cover the period since 1998; and since that time there are indicators showing a downward trend in the market risk premium (in part reflecting falling interest rates). The ACCC has also pointed to Professor Robert Officer providing support for the view that the market risk premiums may be trending downwards (TransGrid, 25 January 2000, page 19). The more stable inflationary environment in recent years (and strong expectations for its continuation over the medium term) suggests that the premium is now (and is expected to be) less than has been observed in studies covering earlier years. The ACCC has also noted that following the introduction of dividend imputation, the size of the premium, would have fallen to reflect the additional value of franking credits. In addition, the ACCC has recently commissioned a study on regulated rates of return by NERA, which shows that market risk premiums set by Ofwat, Offer, Ofgas, Ofgem and the MMC all fall in the 3-4% range.

Accordingly, the EUAA **recommends** a market risk premium below 5.5%.

(3.3) Betas and Risk

The EUAA is very surprised by Powerlink's claims for an equity beta of 1.12 and the corresponding cost of equity of 13.97% (incorporating an equity risk of 1.3% for asymmetric risk). An equity beta of more than 1 indicates that Powerlink believes it has a high risk relative to the equities market. This claim is not credible given its status as a regulated electricity business in a resource-based economy like Australia. On this ground alone, we would expect a beta of less than one. It is noted that the NERA study (referred to above) shows a range of 0.55 to 1.0 in the UK, with 1999/2000 regulatory decisions in the range 0.7-0.95.

It is well-recognised (including by the ACCCC) that it is difficult to justify a high equity beta for electricity transmission businesses, as they are relatively low risk businesses and subject to a regulated income set within a well-defined regulatory framework and relatively certain environment. More particularly, the revenue cap framework used by the ACCC means that transmission businesses' maximum revenues are afforded protection from reductions arising from any general economic downturn.

The EUAA provides comments below on the explicit risks identified by Powerlink in its application. Powerlink claims that these risks have been allowed by the ACCC in its TransGrid determination.

(a) Third Party Liability

Powerlink claims that these risks are greater in Queensland due to higher relative loading of the grid and the lack of meshed network potentially exposing Powerlink to more claimable events. However, Powerlink's application fails to forecast the potential impact of the increased risk, provides no material quantifying the actual likelihood of the liability occurring, and provides no cost data regarding protection from that risk.

The EUAA considers that Powerlink has not established a case for increased risks. The ACCC should not accept any identifiable costs associated with a pass-through charge, on top of the regulated revenue stream. Transmission businesses also act as agents for NEMMCO for system operations and security arrangements and are indemnified by NEMMCO for provision of service or incurring of liability. The Market and System Operations Insurance Advisory Council of NEMMCO is currently considering the appropriate liability exposure for transmission businesses carrying out market and system operator functions. The ACCC should establish that there is no double-dipping here, and should not accept any pass-through charge without establishing the robustness of Powerlink's network planning process and details relating to its risk management strategies.

(b) Asset Stranding Risks

Powerlink's application claims that risks of asset stranding will significantly increase due to the impacts of excessive generation capacity and introduction of a new gas transmission network.

We note, however, that the risk of asset write-downs is a normal aspect of the business environment in competitive markets. In the case of regulated markets, the regulator, when seeking to optimise assets, is only acting as a proxy for the effects of a competitive solution in the market.

Powerlink has not sought to quantify or provide details of stranding risks, nor has it established the probabilities of those risks actually occurring during the regulatory period. Before we could accept them, the risks would need to be shown to be material.

(c) "Newness" of the regulatory regime

Powerlink points to a range of NEC changes that it claims increase asymmetrical risks. However, as with the above, Powerlink did not provide details nor seek to quantify such risks. Such information would be required before the substance of such claims could be properly assessed.

In addition, we note that there is now a reasonably extensive track record of network regulation in Australia with the key parameters fairly well-established. Regulators (such as the ORG) that once accepted "newness" as a basis for adding some premium to the WACC have ceased to do so. In addition, they have improved their setting of the WACC parameters thus negating the need for WACC 'premiums'.

The one area where Powerlink may have a justifiable point it seems to us is the transmission pricing under the NEC remains uncertain. However, Powerlink would be aware that the ACCC is presently finalising its assessment of Code changes in this area (and would be expected to have done so before this determination is finished) and other Code changes following from the RIEMNS review are also being completed. The way to handle such uncertainties is through these review processes, not by adding any premium to Powerlink's WACC (or that of any other transmission company).

(d) Additional Market Equity Risk

Powerlink's application includes a risk margin adjustment of 1.3% to the return on equity component of WACC because of the additional market equity risk associated with new gas pipeline transmission. Powerlink adds that while it is not possible to pre-estimate the impact of the gas projects on transmission optimisation, it is clear that even small impacts will require significant increases in the equity beta, in the range of 20 % to 40%. The EUAA would make the following observation on these claims:-

- it has not been established that Powerlink's assets will be stranded by the proposed gas pipeline projects which are yet to be commissioned let alone built (these could even add value to Powerlink's business through the addition of gas-fired generation);
- details (including the dollar consequences) of the assets stranded from the proposed gas pipeline projects are unknown (if and when they arise, they could be considered);
- consumers have great difficulty in accepting the principles that they have to pay more to cover risks from (possible) stranded

assts due to (possible) competition from another energy source – including the resulting higher charges may even be self-fulfilling (in ensuring stranded assets) in that consumers switch to more competitive energy sources, including co-generation options;

- Powerlink has not sought to advise of possible actions it could take to prevent or minimise any assets stranding – its energies are only apparently directed at obtaining a higher regulated rate of return (it should be made to 'compete' more vigorously with such 'threats' rather than seek shelter behind regulation);
- any assets stranding should be take into account at the next regulatory reset. In this regard, stranding risks should be addressed by adjusting cash flows for the effect of the redundancy rather than reflected through the WACC.

Overall, the EUAA does not consider that the risks faced by Powerlink are material, as it has not provided robust argument, information or evidence to that effect. In particular, we do not accept that there should be an additional 1.3% premium for asymmetric risks. Consequently, we **recommend** that the ACCC benchmark Powerlink's equity beta with that determined for TransGrid by the Commission, i.e.1.0, and take into account the outcomes of recent Australian and overseas regulatory reviews, which have set betas at one or lower.

(3.4) Rate of Return (WACC)

The EUAA supports the move by the ACCC to model cash flows in a post –tax framework, thereby overcoming problems associated with pre-tax frameworks, such as the need to forecast accurately tax payments beyond the access arrangement period.

Taking into account the EUAA's calculations – which largely reflect the fact that both real and nominal interest rates and inflation expectations are materially lower, than they were when the Powerlink application was lodged – for the risk free rate of 5.5%, a market risk premium of 5.5% (or lower), an inflation rate of 2.5%, and an equity beta of 1.0 (or lower), and using benchmarks provided in the TransGrid and other recent gas pipelines access arrangements decisions by the ACCC, the EUAA estimates that the post-tax nominal rate on equity for Powerlink is within the range of 10.5%-12.0%. This translates to (and we **recommend**) a post-tax nominal WACC of 7.25% and a pre-tax real WACC of 6.25%. We note that this is still above the 5-6% real, pre-tax WACCs being set nowdays in the United Kingdom.

(4) Operating and Maintenance Expenditure/Service Standards

(4.1) Opex

Powerlink's proposed operating and maintenance expenditure (OPEX) over the regulatory period, appears on the surface, to be very modest (operating costs as a % of network assets decrease by 0.7% per annum). Because OPEX represents a large proportion of the network's variable costs, it is an important source of savings and productive efficiencies over the short to medium term.

As OPEX represent the only controllable cost of the network, it should be benchmarked in terms of service levels, reliability, network outages and perhaps even of congestion. The benchmarking studies provided by Powerlink, while helpful, are at a high level. More detailed assessments should be sought by the ACCC in its assessment of Powerlink's application.

In fact, Powerlink's identifiable costs (opex, maintenance and capex) are based on a maximum of 2 years' previous history and then these are rolled forward 5 years. We consider 2 years' historical data is insufficient to derive a sensible trend, and Powerlink should be require to provide a longer data series, of say, 10 years. As a government enterprise, Powerlink should have the necessary records as it would have had to provide such details on a yearly basis.

The EUAA **recommends** that more data be provided by Powerlink to enable a reasonable assessment of all identified costs to be undertaken.

(4.2) Service Standards

EUAA members are vitally interested in receiving a world-class level of service from transmission entities, including Powerlink, which provide the fundamental 'backbone' of the power system and shortcomings can result in system-wide problems. Competitive prices are important, but so too are competitive service levels.

Measurement of service levels against consistent and international benchmarks is vital to achieving competitive service outcomes and providing customers with greater comfort about what they are getting. Moreover, given the position of transmission businesses, sitting as mostly they do between generators and distributors (neither of whom pays for transmission and therefore have little interest in getting an optimal balance between price and service) and given that most customers (who do pay) are not direct transmission connected, it is critical that appropriate service standards and incentives (penalties) for performance (or the lack of it) are applied by the regulator.

The EUAA is concerned that Powerlink has provided little or no relevant information regarding service standards. The NEC requires the Commission, when determining the revenue cap, to take into account the standards determined between the

transmission business and its consumers. Furthermore, proposed NEC Code changes require the transmission businesses to publish and adhere to the service standards imposed on them by the regulatory regime administered by the Commission. The NEC changes also provide for the development of a regime to allow for the negotiation of, and payment for, higher levels of service. Reliability standards set for tariffed services are to be available from 1 July 2001 and the networks will have to propose service standards, to be determined by the regulator, as part of the regulatory review process.

The EUAA, accordingly, **recommends** that the ACCC require Powerlink to adhere to these requirements and propose minimum service standards for Powerlink, along the lines of those the Commission established for TransGrid:-

"As part of the draft decision, the Commission proposed the following as the service standards for TransGrid:-

- The two service standards proposed by TransGrid with the benchmark levels as determined by SKM:
  - network reliability - 0.5 to 2.0 system minutes per annum (with a rolling three year average of less than 1.3); and
  - network availability – 99.0 to 99.2 per cent; and
- the other service standards developed by SKM with respect to connection point performance and quality of supply (subject to the precise indicators being established). The Commission notes that, when determining benchmark levels of performance at individual connection or supply points, there will be a need to balance the appropriate level of service standards to support the level of the revenue cap determined against the cost of the network of providing additional reliability".

Similar standards should be developed for Powerlink, involving consultation with interested parties, during the regulatory review.

The EUAA also draws attention to the recent decisions by Ofgem in the United Kingdom and the ORG in Victoria that provide incentives/penalties on network businesses to deliver better service. Whilst not perfect, they are steps in the right direction. We **recommend** that the ACCC also impose similar conditions on Powerlink and examine ways in which they might be improved upon.

Nevertheless, the EUAA remains concerned that the specified levels of service for transmission (and associated benchmarks, incentives and penalties) are engineering-oriented and not very meaningful to customers. We believe that more appropriate standards are needed and that transmission needs to become more accountable for the outcomes it delivers to its customers. We welcome initiatives such as the work being done on service standards by both the ACCC and the Regulators' Forum and some of the outcomes emerging from the RIEMNS review.

(5) Conclusion and Recommendations

The EUAA strongly believes that Powerlink's application contains ambit claims that have not been sufficiently justified or substantiated. A significant deficiency is the absence of details in key areas (such as capital expenditures and opex costs) which have a substantial impact on the maximum regulated revenues to be determined by the ACCC. This is disappointing.

Powerlink has also sought to magnify the disadvantages that it perceives as stemming from geographical and locational factors. It has also highlighted the potential risks from gas pipeline competition, and consequently sought to justify receiving a higher regulated rate of return, including an additional market risk premium. The EUAA does not accept that the risks faced by Powerlink are material.

Accordingly, the EUAA considers that there is significant scope for reducing transmission costs in Queensland, and those ought to be comparable to those applying in New South Wales, which has had the benefit of the ACCC regulatory determination.

The EUAA **recommends** the following:-

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