



Australian Competition & Consumer Commission

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Mr Stephane Mailhot
CEO
Murraylink Transmission Company
GPO Box 7077
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BRISBANE QLD 4001

Dear Stephane

Revocation and substitution of revenue cap

I refer to your application dated 2 February 2004 to the Australian Competition and Consumer Commission (Commission) under clause 6.2.4 of the National Electricity Code for the revocation and substitution of Murraylink Transmission Company's (MTC) revenue cap. The application was made to correct errors identified in the calculation of the opening asset base approved as part of that revenue cap.

On 31 March 2004, the Commission decided to revoke MTC's revenue cap and to make a new revenue cap in the form proposed by MTC. The reasons for the decision are set out in the attachment to this letter (a copy of which will be placed on the Commission's website).

If you have any questions in relation to this matter, please contact Louis Tirpcou on (03) 9290 1905.

Yours sincerely

Sebastian Roberts
General Manager
Regulatory Affairs – Electricity



Murraylink Transmission Company Revenue Cap

Application by Murraylink Transmission Company for Revocation and Substitution

Background

The Australian Competition and Consumer Commission (Commission) received an application on 2 February 2004 from the Murraylink Transmission Company (MTC) under clause 6.2.4 of the National Electricity Code (Code) for the revocation and substitution of its revenue cap.

The Commission, in its Final Decision dated 1 October 2003 under clause 6.2.4(b) of the NEC, set the revenue cap to apply to MTC for the period 1 October 2003 to 30 June 2013. By its application, MTC seeks to vary the revenue cap by adjusting the calculation of the opening asset base.

Code Provisions

Under clauses 6.2.4(d) and 6.2.4(e) of the Code, the Commission may revoke a revenue cap and make a new revenue cap in substitution for the remainder of the regulatory control period. Clause 6.2.4(d) relevantly states:

- (d) Notwithstanding clause 6.2.4(b), the *ACCC* may revoke a *revenue cap* during a *regulatory control period* only where it appears to the *ACCC* that:

...

- (2) there was a material error in the setting of the *revenue cap* and the prior written consent of parties affected by any proposed subsequent re-opening of the *revenue cap* has been obtained by the *ACCC*.

Clause 6.2.4(e) of the Code states:

If the *ACCC* revokes a *revenue cap* under clause 6.2.4(d), then the *ACCC* may make a new *revenue cap* in substitution for the revoked *revenue cap* to apply for the remainder of the *regulatory control period* for which the revoked *revenue cap* was to apply.

MTC's Application

MTC's application identified the following three errors in the revenue cap:

Switchyard spares

MTC notes that the Commission decided that Alternative 3 would set MTC's Opening Asset Base value and that the cost of Alternative 3 should include a spare standard transformer, rather than a phase shifting transformer, spare static VAR compensator (SVC) equipment at 1 per cent of the total SVC cost, and general spares at 1 per cent of the remaining switchyard costs. However in deriving Alternative 3's switchyard costs from that proposed by MTC, the Commission erred in deducting the allowance for spare SVC equipment twice.

The cost allowed for general substation spares should be \$0.111 million, and the appropriate adjustment to the cost of Alternative 3 is a reduction of \$0.055 million instead of the reduction of \$1.075 million made by the Commission. This results in an increase in MTC's Opening Asset Base of \$1.020 million.

Contingency

The Commission's intention in the decision is that a P50 contingency allowance provision be used when calculating MTC's opening asset value. However, the Commission misunderstood the information presented by MTC. In its decision, the Commission said that the contingency allowance had been calculated by MTC through multiplying the total project cost by a percentage allowance contained in table 4.14 of the Commission's decision. This was incorrect as the contingency allowance had been calculated by estimating the variability of every individual cost component and processing this information using the *@risk for Excel* program presented by BRW for contingency modelling.

When using BRW's contingency modelling, the contingency allowance is \$4.024 million instead of \$2.480 million in the Commission's decision. This results in an increase in MTC's Opening Asset Base of \$1.544 million.

IDC

In its decision, the Commission erred by calculating the interest during construction (IDC) allowance based on a rate of 7.5% of the total cost of the project, due to an error in its modelling which paid insufficient attention to the length of the development and construction timetable.

When using the nominal weighted average cost of capital of 8.37% that the Commission determined for MTC to calculate the cost of financing, the estimated cash outlays during the construction period of the project, the IDC is \$9.059 million. The Commission has allowed only \$6.049 million in its decision. This results in an increase in MTC's Opening Asset Base of \$3.010 million.

All up, the corrections results in an increase in MTC's Opening Asset Base value of \$5.628 million, which includes flow-on adjustments for profit and overhead and indexation.

MTC proposed that the Commission change MTC's Opening Asset Base value as of 1 October 2003 and that the maximum allowable revenue (MAR) for each year be adjusted accordingly. MTC also requests that the difference between the 2003/04 MAR of the 1 October 2003 decision and the revised 2003/04 MAR (that is \$0.388M) be added with interest to the 2004/05 revised MAR. MTC states that this would enable proper recovery of its revenue through the coordinating network service providers in the Victorian and South Australian regions in accordance with their annual pricing cycles under the Code.

Process

Under clause 6.2.4(d)(2) of the Code, before a revenue cap may be revoked and substituted, it is necessary to obtain the written consent of parties affected. MTC set out the persons that it

considered to be affected parties for the purpose of clause 6.2.4(d)(2) (being VENCORP, SPI PowerNet Pty. Ltd. and ElectraNet SA Pty. Ltd.). VENCORP and ElectraNet SA Pty. Ltd. responded stating that they were affected parties and consented to the amendments. SPI PowerNet Pty. Ltd. responded stating that they were not an affected party.

The Commission also consulted a number of persons who were not identified by MTC to be an affected party, including registered retailers in Victoria and South Australia and large energy user representatives. They were asked if they considered themselves to be:

1. a party affected for the purpose of clause 6.2.4(d)(2) of the Code; or
2. if not a party affected, did they nevertheless wish to make a submission.

These parties listed in the following table:

Registered retailers in Victoria	AGL Electricity Citipower TXU Electricity Origin Energy Pulse Energy ACTEW AGL Aurora Energy Auspower Australian Energy Services Australian Inland Energy Water Infrastructure Country Energy Energex Retail Energy Australia Ergon Energy Integral Energy Australia
Registered retailers in South Australia	AGL South Australia ACTEW AGL Auspower Citipower Country Energy Energex Retail NRG Flinders Origin Energy Electricity Tarong Energy Corporation TXU Electricity
Large user representatives in Victoria and South Australia	EUAA EUCV ECCSA

No replies were received from these persons.

Commission's Assessment

The Commission is satisfied that:

1. the errors identified by MTC in its application are 'material errors' for the purpose of clause 6.2.4(d)(2);
2. the prior written consent of the parties affected has been obtained; and
3. the revenue cap should be revoked and a new revenue cap should be made to apply for the remainder of the regulatory control period in the form proposed by MTC.

Commission Decision

On 31 March 2004, the Commission decided (with effect from that date):

1. pursuant to clause 6.2.4(d)(2) of the Code, to revoke the revenue cap set by the Commission on 1 October 2003 to apply to MTC for the period 1 July 2004 to 30 June 2013; and
2. pursuant to clause 6.2.4(e) of the Code, to make a new revenue cap for MTC to apply to 30 June 2013, being the revenue cap made on 1 October 2003 varied in the manner outlined in Table 1 reflecting the change to MTC's opening asset base as set out in Table 2.

Table 1: Total Revenue

	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
Revised ACCC Decision	12.803	12.508	12.613	12.720	12.828	12.936	13.045	13.156	13.267

Table 2: Opening Asset Base

	Revised ACCC Decision
Development Costs	13.569
Transmission Costs	28.620
Substation Costs	39.487
10% overhead and profit	6.811
IDC	9.059
P50 Contingency	4.024
Indexation	1.388
Total Project Cost	102.958