

on behalf of **MURRAYLINK Transmission Partnership**

2 February 2004

Sebastian Roberts  
General Manager, Regulatory Affairs – Electricity  
Australian Competition & Consumer Commission  
GPO Box 520J  
Melbourne VIC 3001

Dear Sebastian,

#### **Request for correction of error in Final Decision**

The purpose of this letter is for Murraylink Transmission Company (“MTC”), on behalf of Murraylink Transmission Partnership, to formally request the Australian Competition and Consumer Commission revoke MTC’s revenue cap under its *Decision: Murraylink Transmission Company Application for Conversion and Maximum Allowable Revenue, 1 October 2003* and make a new review cap that corrects a number of material errors described in this letter. These errors are in the setting of MTC’s Opening Asset Base value and therefore calculation of MTC’s revenue cap for the regulatory control period ending 30 June 2013.

This request is made under clause 6.2.4(d)(2) and 6.2.4(e) of the National Electricity Code. Clauses 6.2.4(d) and 6.2.4(e) state:

- (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:
  - (1) the revenue cap was set on the basis of false or materially misleading information provided to the ACCC;
  - (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;
  - (3) there is a substantial change in ownership of network assets within the business of the Transmission Network Owner and/or Transmission Network Service Provider (as appropriate) which, in the opinion of the ACCC, may lead to a material change in the revenue requirement of the Transmission Network Owner and/or Transmission Network Service Provider (as appropriate) following that change in ownership.
- (e) 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.



### Identified material errors

MTC has identified a number of what it considered errors in the Decision. The results of our discussions with the Commission being the following:

1. 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 \$0.111M, and the appropriate adjustment to the cost of Alternative 3 is a reduction of \$0.055M instead of the reduction of \$1.075M made by the Commission. Therefore an increase in MTC's Opening Asset Base of \$1.020M.

2. 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 modeling.

When using the BRW contingency modeling, the contingency allowance for the Alternative 3 is \$4.024M instead of the \$2.480M in the Commission's decision. Therefore an increase in MTC's Opening Asset Base of \$1.544M.

3. 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 modeling which did not correctly allow for 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 \$9.059M. The Commission has allowed only \$6.049M in its decision. Therefore, an increase in MTC's Opening Asset Base of \$3.010M.

Together the Commission's correction of these errors would bring about an increase in MTC's Opening Asset Base value of \$5.628 M, which includes flow-on adjustments for profit and overhead and indexation. Calculation of these amounts is provided in Attachment 1 of this letter.

### Affected Parties

As requested by ACCC, MTC has identified the relevant affected parties under clause 6.2.4(d)(2) to be ElectraNet SA, SPI PowerNet and VENCORP.

**Method of correction**

MTC proposes that, when making a new revenue cap in substitution for MTC's revoked revenue cap, the Commission change MTC's Opening Asset Base value as of October 1, 2003. MTC's maximum allowable revenue ("MAR") for each year would be adjusted accordingly. However, we request 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. This would enable MTC's proper recovery of its revenue through the coordinating network service providers in Victoria and South Australian regions in accordance with their annual pricing cycles under the National Electricity Code. Calculation of the proposed method of correction is also provided in Attachment 1.

If you have any questions regarding this letter or the calculations attached, please don't hesitate to contact me at +1 (514) 393 1000 Ext 2068 or Brian Williams at 07 3211 8645.

Yours sincerely,



Stéphane Mailhot  
Chief Executive Officer  
Murraylink Transmission Company



### Attachement 1-1

<b>Opening Asset Base</b>	<b>Original ACCC Decision</b>	<b>Changes</b>	<b>Revised ACCC Decision</b>
<b>Development Costs</b>	<b>13.569</b>		<b>13.569</b>
<b>Transmission Costs</b>	<b>28.620</b>		<b>28.620</b>
<b>Substation Costs</b>	<b>38.467</b>	<b>1.020</b>	<b>39.487</b>
10% overhead and profit	6.709	0.102	6.811
IDC	6.049	3.010	9.059
P50 Contingency	2.480	1.544	4.024
Indexation	1.436	-0.048	1.388
<b>Total Project Cost</b>	<b>97.330</b>	<b>5.628</b>	<b>102.958</b>

<b>Effect on MAR</b>		
<b>Opening Asset Base</b>	<b>Original ACCC Decision</b>	<b>Revised ACCC Decision</b>
Switchyard costs	53.469	57.327
Transmission line costs	39.781	41.551
Easements	4.080	4.080
	<b>97.330</b>	<b>102.958</b>
<b>MAR</b>		
03/04	8.900	9.288
04/05	11.880	12.403
03/04 shortfall:		0.388
interest on 03/04 shortfall:		0.012
Total MAR 04/05:		12.803
05/06	11.990	12.508
06/07	12.090	12.613
07/08	12.190	12.720
08/09	12.290	12.828
09/10	12.400	12.936
10/11	12.500	13.045
11/12	12.610	13.156
12/13	12.720	13.267

## Attachement 1-2

### Interest during construction

IDC on development costs, switchyard costs,  
transmission line costs, profit and overhead, and contingencies.

Vanilla WACC

8.37%

	4	3	2	1	0	Total
Construction period expenditure in each year	\$4.523	\$4.523	\$4.523	\$26.314	\$52.628	\$92.511
discounted	\$4.114	\$4.212	\$4.322	\$25.572	\$52.628	\$90.848
	5%	5%	5%	28%	58%	
<b>IDC on total cost</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>0</b>	
half WACC	0.172	0.176	0.181	0.535	2.202	
full WACC		0.359	0.756	1.196	3.482	
<b>Sub total IDC</b>	<b>0.172</b>	<b>0.535</b>	<b>0.937</b>	<b>1.731</b>	<b>5.684</b>	
						<b>\$9.059</b>