

on behalf of **MURRAYLINK Transmission Partnership**

26 August 2003

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

Dear Mr Roberts

Application for Conversion to a Prescribed Service and Maximum Allowable Revenue

On behalf of Murraylink Transmission Partnership, Murraylink Transmission Company (“MTC”) appreciates the opportunity to respond to additional submissions by stakeholders in response to the Commission’s Preliminary View¹ and its letter from the Victorian Department of Sustainability and Environment of 31 July 2003:

- A joint letter from the Energy Users Coalition of Victoria (“EUCV”) and the Electricity Consumers Coalition of South Australia (“ECCSA”) of 14 August 2003;
- A letter from ElectraNet SA of 20 August 2003;
- A letter from the Electricity Supply Industry Planning Council (“ESIPC”) of 20 August 2003;
- A note from Western Power of 21 August 2003; and
- A letter from TransGrid of 22 August 2003².

This letter is supplementary to, and should be read in conjunction with, MTC’s *Application for Conversion to a Prescribed Service and a Maximum Allowable Revenue for 2003-12* of 18 October 2002 and its previous submissions to the Commission of 28 February 2003, 17 March 2003, 8 April 2003, 30 June 2003, 18 July 2003, 12 August 2003, and 18 August 2003.

¹ Australian Competition and Consumer Commission, *Preliminary Review: Murraylink Transmission Company Application for Conversion and Maximum Allowed Revenue* (“**Preliminary View**”), 14 May 2003.

² Text within the TransGrid letter does not specify the date for the report. The electronic file that the Commission provided to MTC on 22 August 2003 was last modified on 22 August 2003. As such, MTC has taken the letter to be dated 22 August 2003.

1. Conversion

MTC has dealt extensively in its previous submissions³ with the issues associated with its right to apply for conversion.

In summary, it is clear from the Safe Harbour Provisions and from the Commission's previous statements that MTC may apply for conversion at any time and no separate justification is required. For this reason, the Commission has applied in its Preliminary View a threshold for conversion that is no lower than the NECA Working Group contemplated and its application of an ODRC valuation will ensure that conversion is not used by market network services to game the market for network services.

2. Murraylink's Power Transfer Capability, Utilisation and Benefits

In response to another suggestion that the Interconnection Options Working Group ("IOWG") examine again Murraylink's power transfer capability, MTC reiterates that the IOWG has already conducted a technical assessment of Murraylink under the National Electricity Code ("Code") and published its findings⁴. On-going assessments and more detailed augmentation designs are being conducted by TransÉnergie Australia, VENCORP and TransGrid based on the work of the IOWG and built upon it. The current process allows for all design issues to be satisfactorily resolved in a manner that is consistent with the technical and regulatory obligations of all the parties. On this basis, MTC submits that the transfer capability of Murraylink and the additional augmentations has already been satisfactorily assessed by the IOWG and no further assessment is necessary.

A stakeholder has indicated that it believes there is doubt, given Murraylink's historical load flows reflecting its market network service, as to whether the full capacity of Murraylink is needed and what the value of Murraylink will be when SNI is operating. The stakeholder provided its interpretation of historical flows across Murraylink and the Heywood interconnector.⁵

Historical information on Murraylink's flows during its first year of operation as a market network service is of little relevance to the Commission's consideration of Murraylink's future utilisation or market benefits as a prescribed service, which will be a function of how NEMMCO will dispatch Murraylink to provide optimal generation dispatch, and of on-going load growth.

MTC has provided to the Commission TEUS's forecast utilisation of Murraylink. TEUS stated that⁶:

A review of the TEUS PROSYM modeling results indicates that in the Base Case analysis, the percentage of hours that Murraylink operates at its limit of 220 MW (Vic to SA) converges to

³ In particular, MTC's submissions of 8 April 2003, 18 July 2003 and 12 August 2003.

⁴ IOWG, 5.6.6(b) *Technical Assessment of Murraylink*, August 2001.

⁵ In their joint letter to the Commission of 14 August 2003, the Energy Users Coalition of Victoria and the Electricity Consumers Coalition of South Australia provided graphical representations of the 2002-03 flows across the Murraylink and the Heywood interconnectors (pp. 2-3). MTC has identified errors in the graphs, which is clearly evident when the first graph is compared with the third graph (p. 5). MTC has not sought to pursue this further given that historical information is of little relevance as outlined in the following paragraph.

⁶ TEUS, *Calculation of Murraylink's Gross Market Benefits - Response to Stakeholder Issues*, 8 August 2003, pp. 4-5, which is Attachment 4 to MTC's letter to the Commission of 12 August 2003.

approximately 20%. For the LRMC Bidding scenario, the percentage of hours with flow Vic to SA of 220 MW is higher, approximately 30%. Under both sets of assumptions, the full capacity of Murraylink is clearly utilized a significant percentage of the time, which strongly supports the conclusion that Murraylink's incremental transfer capacity meets an important need within the NEM.

Murraylink's forecast utilisation represented the expected level of service delivery that Murraylink will be called upon to provide. It also forms basis of determining the level of service that an optimally-configured alternative project would be called upon to provide for the purpose of determining Murraylink's ODRC valuation.⁷ An interconnector with a significantly lower level of power transfer capability, such as Heywood A, would be unable to satisfy this need.

As a rule of thumb, Murraylink's nominal transfer capability of 220 MW is comparable with the transfer capability that had been expected of SNI, which would have connected very similar nodes in the NEM.

Murraylink's expected gross market benefits have been calculated given the current configuration of the network and expected market development scenarios. Should SNI proceed, the Commission will determine its regulatory asset value, in accordance with the Code, on the basis of its deprivation value, which would be a function of the additional gross market benefits that SNI would provide beyond that already being provided by Murraylink.

3. Scope and Costing of the Alternative Projects

Environmental Impact Mitigation Measures

As indicated in our letter of 18 August 2003, the Commission's letter from Dr John Cooke of the Department of Sustainability and Environment contains an informative perspective on the environmental and planning approval process that MTC undertook for the development of Murraylink and the issues associated with gaining approvals for developing transmission lines in National Parks. The e-mail from Mr Gary Niewand that is attached to Dr Cooke's letter reinforces many of these points about the difficulties of gaining approval to build an overhead power line through a national park, especially that in Mr Niewand's view:

Given the availability of alternatives (routes and technologies) so far as the hypothetical case is concerned, it is difficult to envisage that the Governor in Council would determine that consent should be issued.

MTC views this letter in the context of its submission of 18 July 2003, which included a report from Worley and BRW on their assessment of the probability of the need for major environmental impact mitigation measures. This assessment was based upon information gathered at a workshop attended by Dr Cooke and a range of relevant government officials, industry representatives, community representatives and qualified advisors listed in Table 1.⁸ The workshop considered issues associated with developing power lines through national

⁷ MTC, *Submission on Stakeholder Comments on the Preliminary View*, 12 August 2003, p. 9, which is Attachment 1 to MTC's letter to the Commission of 12 August 2003.

⁸ More detailed profiles of workshop participants are provided in Worley and BRW, *Murraylink Alternative Project, Environmental Impact Mitigation Workshop, Melbourne 23 June 2003*, contained in *Reassessment of Capital Costs for Murraylink Alternative*, 16, July 2003, which is Attachment 6 of MTC's letter to the Commission of 18 July 2003.

parks and, just as importantly, areas constrained by intensive agricultural use, urban development, cultural and ecological significance.

Table 1 - Environmental Impact Mitigation Workshop Attendees

Name	Position	Relevant Background
Trevor Blake	Manager, Environmental Assessment Projects, Victorian Department of Environment and Sustainability	Mr Blake has been responsible for the assessment of many major projects including Basslink, and the Portland and Nirranda Wind Farms.
Dr John Cooke	Manager Sunraysia, Victorian Department of Primary Industries	Responsible for coordinating the Department's response to planning applications for infrastructure work in the Sunraysia area.
Michael Hodder	Senior Scientific Officer - Native Vegetation Program, Department of Water, Land and Biodiversity Conservation	
Alistair Sharp-Paul	Director, NSR Environmental Consultants	The Project Director for National Grid in relation to the Basslink environmental assessment process.
John Ashe	Consultant	Formerly Assistant Secretary with the Commonwealth Department of the Environment, Sport & Territories, Environment Assessment Branch - Appointed to the Basslink Joint Advisory Panel by the Commonwealth Government.
Leonie Burrows	Consultant	Recent former CEO of Mildura Rural City Council.
Jenny Barnett	Research Officer, Victorian National Parks Association	The VPNA representative for the Basslink and TXU/Alpine National Park projects environmental assessment processes.
Jackie Boyer	Manager, Environment & Water Resources, Kellogg Brown & Root	Principal environmental advisor for Murraylink and for the Victorian Government in relation to the Basslink environmental assessment process.
Tim Power	Partner, Freehills	Planning and environment legal advisor to National Grid and MTC.
Andrew Randall	Investment Planning Manager, TXU Networks	Currently responsible for balancing the cost, performance and risk of running TXU's gas and electricity networks.
Dr Harry Schaap	Assistant Director, Environment and Sustainable Energy, ESAA	More than 30 years experience in the electricity supply industry in areas of research and development, strategic planning, environmental management and sustainable energy development.

Mike Farr	Project Director, TransEnergie Australia	Oversaw all aspects of Murraylink's development including the permitting and community consultation phases.
-----------	---	---

As indicated in BRW's report, correspondence from Mr Gary Niewand of Parks Victoria⁹ (which was attached to Dr Cooke's letter), from Ms Fiona Donohue of the Department of Water, Land and Biodiversity Conservation¹⁰, and from Mr Lee Webb of Planning SA¹¹ was considered by the workshop.

MTC observed that the workshop participants are all well qualified to provide valuable insight on this matter. Their diversity of views and experiences reflect the diversity of views and experiences among government agencies, electricity businesses, community representatives, and their advisors within the broader community, and this led to substantial debate. Dr Cooke contributed to the debate his advice on developing power lines through the Murray-Sunset National Park—as set down in his letter to the Commission—along with his knowledge and experience on a range of other relevant matters. The workshop participants gave Dr Cooke's contribution due consideration in the light of Dr Cooke's expertise, the position he holds, and the fact that he is involved in the assessment of any transmission line proposed to be built in the Sunraysia area or through the Murray-Sunset National Park. Other workshop participants provided their insight and experience—especially in relation to previous electricity infrastructure projects such as Basslink—to complete the picture.

The outcome of the workshop was not determined by one view or another as to the environmental impact mitigation measures that Alternatives 1, 2 and 3 would need to include. This is appropriate given the complexities and uncertainties of the issues and assessment processes. The outcome of the workshop reflects due consideration of the range and diversity of views, all the relevant factors, and has been expressed by BRW and Worley in probabilistic terms.

Some stakeholders indicated that they disagree with Dr Cooke's views. This is not surprising. It confirms that a diversity of view exists and it confirms the views of many electricity transmission businesses. However, the fact remains that there is a probability that major environmental impact mitigation measures would be required for Alternatives 1, 2 and 3 to be constructed. The real debate is about the magnitude of that probability. The correct assessment of the probability needs to consider:

- the nature of the relevant legislation and the environmental and planning approval processes that would apply to the projects;
- the ecological, land use, cultural, social and political environment relevant to the projects;
- the range of environmental impact mitigation measures available and their costs;
- the experience of previous projects locally and within the same jurisdictions; and

⁹ Worley and BRW, *Murraylink Alternative Project, Environmental Impact Mitigation Workshop, Melbourne 23 June 2003*, Attachment 10, and also attached to Dr Cooke's letter to the Commission of 31 July 2003.

¹⁰ Worley and BRW, *Murraylink Alternative Project, Environmental Impact Mitigation Workshop, Melbourne 23 June 2003*, Attachment 10.

¹¹ Preliminary View, Appendix B.

- the balance of all the various interests concerned.

This is precisely what Worley and BRW have achieved.

Some stakeholders have suggested that Murraylink's technology should not be considered to set a standard for its alternative projects. Such a constraint would be unrealistic and, therefore, inappropriate. When proponents and environmental approval bodies assess the environmental impact of any proposed transmission line, they carefully take into consideration the technology options that exist and their potential to mitigate those impacts. There is no reason to assume that when considering a hypothetical alternative project to Murraylink, these approval bodies would have to be constrained from considering HVDC Light or any other technology that existed when Murraylink was developed.

Some stakeholders have suggested that the Commission's acceptance of the probable costs associated with environmental impact mitigation measures for Murraylink's alternative projects would create a new precedent for the ODRC valuation of existing and new transmission lines. It would not for two reasons.

Firstly, the Commission would be applying an existing ODRC principle. In previous revenue cap decisions, for the purposes of determining an optimised replacement asset, the Commission has accepted that optimisation is constrained by the principle that any optimisation should be practical from a technical, operational, environmental and community acceptance point of view.¹² BRW has simply incorporated into the alternative projects likely costs of the measures necessary for the alternative projects to achieve environmental and community acceptance, which would be determined through the statutory environmental and planning processes. Thus, the current ODRC valuations of existing transmission assets would not be affected by the Commission's acceptance of these costs in Murraylink's case.

Secondly, The Allen Consulting Group highlights that it would be appropriate for the Commission to be clear that it will cap the extent to which an optimised replacement asset could include undergrounding to the level of undergrounding that exists in the existing asset.¹³ This approach recognises that existing assets have achieved their environmental and planning approvals, and will manage expectations of TNSPs who might anticipate windfall gains from increases in the value of existing overhead lines in environmental sensitive areas.

4. Weighted Average Cost of Capital

A stakeholder has recommended that the Commission apply a market risk premium lower than the 6.0% proposed in the Preliminary View for the purpose of setting MTC's weighted average cost of capital ("WACC"). MTC submits that a market risk premium lower than 6.0% is inappropriate.

¹² Sinclair Knight Merz ("SKM"), *Optimisation for the SPI PowerNet Network*, April 2002, p. 17, which the Commission accepted in its *Decision: Victorian Transmission Network Revenue Caps 2003-2007/08*, 11 December 2002, p. 54. SKM prepared the optimisation report for ElectraNet SA using the same optimisation principles, which the Commission accepted in its *Decision: South Australian Transmission Network Revenue Caps 2003-2007/08*, 11 December 2002, p. 47.

¹³ The Allen Consulting Group, *Commentary on the Preliminary View*, July 2003 (submitted by MTC on 18 July 2003), p. 37-38.

While MTC continues to support the view that the parameters put forward in its Application are more appropriate, MTC recognises that the parameters proposed in the Commission's Preliminary View are consistent with the Commission's previous decisions. In particular, it has proposed to apply the same market risk premium to MTC as it has in all its previous electricity transmission regulatory decisions, as shown in Table 2.

Table 2 – Market Risk Premium – Previous Decisions & Preliminary View

	Equity Beta	Market Risk Premium
TransGrid and EnergyAustralia ¹⁴	0.78 – 1.25 (with a mid point of just >1.0)	6.0%
Powerlink Queensland ¹⁵	1.0	6.0%
ElectraNet SA ¹⁶	1.0	6.0%
SPI PowerNet ¹⁷	1.0	6.0%
Proposed for MTC ¹⁸	1.0	6.0%

MTC notes that the Commission has applied the same principle to the determination of MTC's debt margin as it has applied for previous decisions. The Commission has considered a benchmark credit rating and the length of the regulatory control period to derive 1.45%.

MTC would expect the Commission's final determination to also be consistent with its Preliminary View.

As always, we would be pleased to provide further information in relation to any of these or any other issues that the Commission believes have a bearing on its determination of MTC's application.

Yours sincerely



Stéphane Mailhot
Chief Executive Officer
Murraylink Transmission Company

¹⁴ Australian Competition and Consumer Commission, *Decision: NSW and ACT Transmission Network Revenue Caps 1999/00-2003/04*, 25 January 2000, pp. 42, 139-40.

¹⁵ *id.*, *Decision: Queensland Transmission Network Revenue Caps 2002-2006/07*, 1 November 2001, p. 28.

¹⁶ *id.*, *Decision: South Australian Transmission Network Revenue Caps 2003-2007/08*, 11 December 2002, p. 41.

¹⁷ *id.*, *Decision: Victorian Transmission Network Revenue Caps 2003-2007/08*, 11 December 2002, p. 33.

¹⁸ Preliminary View, p. 81.