



## **Murraylink Joint Venture**

### Proposed Forecasting Methodology

For the regulatory period  
July 2023 to June 2028

July 2021

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## Purpose

The purpose of this document is to define Murraylink's proposed methodology for forecasting capital and operating costs for the 2015-20 regulatory period, as required under Rule 6A.10.1B of the *National Electricity Rules*:

### **6A.10.1B Notification of approach to forecasting expenditure**

- (a) A *Transmission Network Service Provider* must inform the *AER* of the methodology it proposes to use to prepare the forecasts of operating expenditure and capital expenditure that form part of its *Revenue Proposal*.
- (b) A *Transmission Network Service Provider* must submit the information referred to in paragraph (a):
  - (1) at least 24 months before the expiry of a *revenue determination* that applies to the *Transmission Network Service Provider*, or
  - (2) if no *revenue determination* applies to the *Transmission Network Service Provider*, within 3 months after being required to do so by the *AER*.

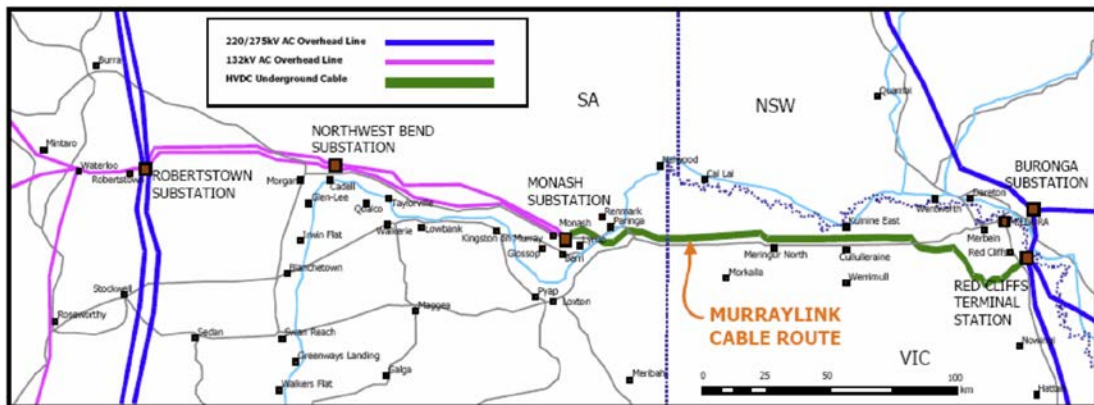
Italicised terms are defined in the *National Electricity Rules*.

# 1 Background

## *The Murraylink interconnector*

Murraylink is a 180 km high voltage direct current (DC) transmission line between Red Cliffs in Victoria and Berri in South Australia. Murraylink carries up to 220MW of power between the Victorian and South Australian transmission networks, although its capability to deliver this flow is limited at times by the capacity of the regional transmission networks to which it is connected..

*Figure 1 – The Murraylink Interconnector*



The Murraylink transmission line consists of a pair of high voltage DC cables buried side by side underground from Berri to Red Cliffs. The cable pair is connected to a single converter station at each end. The converter stations interface the DC cables, to the high voltage; alternating current (AC) transmission systems in South Australia (132kV) and Victoria (220kV) via short lengths of underground high voltage interconnect AC cable.

## *Regulatory history*

Murraylink was originally built to operate as a market network service provider, trading between the two regions. In October 2003, the ACCC determined that Murraylink would be reclassified as providing a prescribed transmission service. The ACCC determined Murraylink's maximum allowable revenues for the nominal 10-year period until 30 June 2013.

In 2012 Murraylink submitted a second revenue proposal for a 10-year regulatory control period, from 1 July 2013 to 30 June 2023. In its revised proposal it proposed a reduced term 5 year period until 30 June 2018. This period was accepted by the AER in its final determination.

In 2017 Murraylink submitted its third revenue proposal. This transmission determination was for the period 2018-2023.

### *Murraylink's role in the National Electricity Market*

As a result of the conversion to a regulated interconnector, Murraylink is registered with the Australian Energy Market Operator as a Transmission Network Service Provider.

The link is dispatched by AEMO, in a similar manner to a generator, to control flows between the SA and Victoria regions of the National Electricity Market (NEM) and thereby minimise the costs of generation in the NEM.

The implications of this arrangement, for forecasting methodology purposes, is that Murraylink provides the asset to be available to AEMO for dispatch as required. Murraylink is not required to derive its allowed revenue over load or demand served and therefore does not establish tariffs for the provisions of its service. Accordingly, there is no need for Murraylink to forecast load or peak demand as would be the case for other regulated TNSPs.

This Forecasting Methodology therefore focuses on the approaches expected to be used to forecast capital and operating expenditure only.

## 2 Forecasting Methodology

### 1. *Load and demand*

Owing to the nature of the interconnector and its dispatch by AEMO, Murraylink does not collect its revenue over forecast load and demand. Moreover, load and demand do not impact on Murraylink's capital expenditure program.

Murraylink therefore will not prepare a load and demand forecast.

### 2. *Capital expenditure*

Consistent with the nature of the asset, Murraylink expects that there will be a small number of discrete capital expenditure items. These items are expected to be of a "stay in business" nature.

Forecast costs for these projects will be individually estimated, based on the best estimates of relevant materials costs and labour rates based on recent experience.

Murraylink is not anticipating any expansion related capital expenditure during the forecast regulatory period.

### 3. *Operating expenditure*

Murraylink is proposing to forecast operating expenditure on the AER's base-step-trend revealed cost methodology. Murraylink will firstly identify an efficient base year that reflects the expenditure a prudent network operator would require taking into account a realistic expectation of the demand forecast and cost inputs to achieve the operating expenditure objectives. Any one-off or non-recurrent expenditure items will be removed so that the base year is representative of ongoing expenditure

Murraylink will then apply an annual rate of change, consistent with the AER Expenditure Assessment Guideline, across the forecast period. The annual rate of change will be based on the best forecast of likely changes in real costs.

Murraylink will add 'bottom up' cost estimates for any other one-off requirements or step change cost items that are not captured in the base year operating expenditure or rate of change that are required for the forecast in order to meet the operating expenditure objectives.

### 4. *Real cost escalation*

Murraylink anticipates that it will escalate materials and labour costs in line with real cost increases.