Supplementary Revenue Proposal
Additional Information

Powerlink provides this additional information in relation to its Supplementary Revenue Proposal submitted to the AER on 15 December 2006.

Total amount of capex sought

Powerlink's Supplementary Revenue Proposal includes additional capex associated with increased input costs, the probability of generation resulting from the PNG pipeline in the relevant time, higher demand forecasts and a special NEMMCO requirement.

In determining the total amount of capex now sought Powerlink has included a number of the AER's adjustments made in its 8 December Draft Decision for Powerlink's revenue cap 2007-08 to 2011-12. The Draft Decision adjustments included in the proposed capex allowance are:

- CQ-SQ projects review
- Undergrounding transfer to contingent projects
- M50++ transfer to contingent projects
- Use of specific locality factors for capacitor bank projects

Powerlink will be responding to the AER's other adjustments in its response to the Draft Decision. The total amount of capex Powerlink is now seeking is shown below:

$m 06/07	2007/08	2008/09	2009/10	2010/11	2011/12	Total
Total Capital Expenditure	666.71	598.33	448.34	611.77	427.73	**2,752.88**

Total amount of opex sought

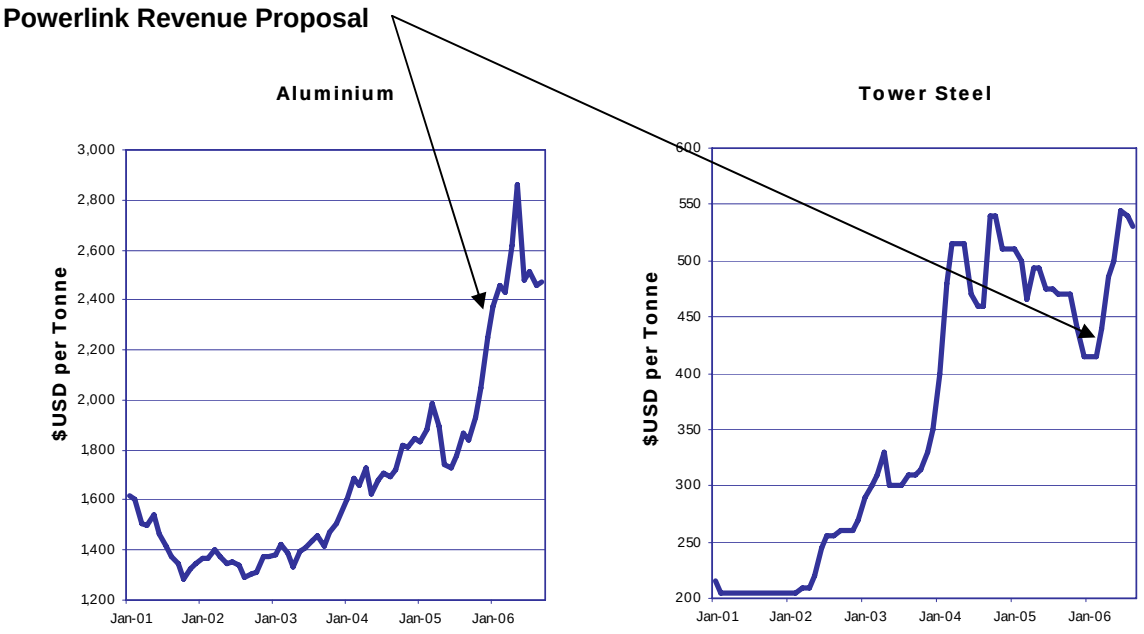
Powerlink's Supplementary Revenue Proposal notes that consequential adjustments will need to be made to the controllable opex required as a result of the changes in the timing of assets being constructed and coming into service. The additional opex over the five year period due to these timing changes is $0.27 million ($06/07).

The total amount of controllable opex now sought is shown here:

$m 06/07	2007/08	2008/09	2009/10	2010/11	2011/12	Total
Total Controllable Opex	113.22	119.55	126.61	135.28	140.46	**635.11**

Higher projects cost /higher input costs

Powerlink flagged the impact of increased input costs on capital expenditure (both past and forecast) in its Revenue Proposal of 3 April, and included price charts for aluminium and tower steel as indicators of the trends (at that time) of key input costs. Those charts have been updated to show how those costs have moved materially since then. Steel and aluminium prices are up to 25% higher than when Powerlink prepared the cost estimates for the Revenue Proposal. Steel makes up about 33% of transmission line costs and aluminium about 25%.



Powerlink is not alone is requiring additional capital expenditure as a result of input cost increases. Increases in cost estimates for infrastructure projects are routinely reported in the press. A few of these are included here.

- Alcan Gove alumina refinery – capital cost up $500m, 25% increase on the $2 billion project despite sourcing components from low cost countries
- Woodside Petroleum Karratha LNG – up $420m, 20% rise despite efforts to source plant off shore

- Oxiana's Prominent Hill mine – up $370m; 100% increase on 2004 estimate; 50% increase on 2005 estimate
- BHP Billiton Ravensthorpe nickel project is about 100% over budget

These are relevant because construction prices generally have risen due to the resources boom and growing requirements for infrastructure provision in Queensland resulting from the boom as well as ongoing population growth. External indicators of such increases are not necessarily readily available, but that does not make them any less real or negate the need for the AER to take them into account in determining Powerlink's allowances. While Powerlink has always and will continue to seek productivity improvements, increases currently being experienced cannot be absorbed through these means and increases in revenue must occur.

2006 demand forecast

Information regarding the 2006 demand forecast is in the attachment.