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Mr Sebastian Roberts
Acting General Manager
Regulatory Affairs – Electricity
ACCC
GPO Box 520J
MELBOURNE VIC 3001

Dear Sebastian,

ACCC PRELIMINARY VIEW: APPLICATION BY MURRAYLINK FOR REGULATED STATUS

Powerlink makes this submission in response to ACCC's Preliminary View dated 14 May 2003.

In an earlier submission, Powerlink highlighted the importance of regulatory consistency. TNSPs watch the outcome of regulatory decisions by the ACCC to determine trends in regulatory directions. In decision making, Powerlink relies upon these precedents to form a view of the regulatory treatment of decisions taken. It is of vital importance that ACCC is consistent with the messages that it sends to industry.

The ACCC should be aware of the precedents that it sets and Powerlink signals its intention to rely upon such precedents as are in Powerlink's interests, in future revenue determinations (and application of the Regulatory Test).

Our earlier submission flagged a number of matters of precedent that Powerlink would rely upon in the future. With the Preliminary View, the ACCC has quantified its proposed approach on a number of issues.

There are a number of differences between the ACCC's Preliminary View and previous revenue decisions for TNSPs. Powerlink considers that these differences represent a regulatory precedent and a trend in how the ACCC will treat TNSPs in future determinations.

The purpose of this letter, therefore, is to disclose to the ACCC certain matters of precedence which Powerlink believes it could rely upon in the future. The list of matters is not represented to be exhaustive, and Powerlink reserves the right to rely upon other precedents which the ACCC sets in this exercise.

A. Interest during construction

The Preliminary View regulated asset value includes an allowance of 14.5% for interest during construction.

Powerlink received an allowance of 7.6% during the revenue reset in December 2001.

However, **Powerlink has no objection with the new figure for interest during construction of 14.5% to be used as a basis to value Powerlink's regulated asset base**.

B. Capital cost to set the Regulated Asset Values

Powerlink supports the Preliminary View of using the equivalent overhead line costs to determine the initial RAV.

It appears from the Preliminary View that there is nothing special about the equipment that comprises Alternative 3 used to determine the RAV. That is, that equipment would be the sort that is used regularly by TNSPs. The unit costs used in the assessment of the RAV appear to be higher than those that were used to value Powerlink's assets.

Therefore, **Powerlink has no objection with the ACCC using these unit costs to determine the replacement value of Powerlink's regulated asset base.**

Powerlink notes the MTC claim that phase shifting transformers are required to achieve an equivalent an equivalent power transfer capability for the alternative projects. Powerlink has two such phase shifting transformers in service in our network. The replacement cost of these in Powerlink's regulated asset base is many times less than the cost proposed by MTC.

Powerlink has no objection accepting a revaluation of its existing phase shifting transformers in line with the proposed asset value for these.

C. Tactical undergrounding

Powerlink notes that the ACCC has removed 'tactical undergrounding' from the regulated asset value proposed for Murraylink. Any decision made by the ACCC in regard to this will establish a precedent that it is permissible to include tactical undergrounding in cases where there is no legal requirement. It also sets a benchmark for the degree of tactical undergrounding that represents the lowest cost solution for a remote rural environment such as that traversed by Murraylink or the alternative overhead solution.

As the ACCC would be aware, Powerlink has a number of active line projects which have generated community calls for undergrounding. The final ACCC position on this matter will set precedents for the Queensland network.

D. Weighted Average Cost of Capital

The ACCC has proposed to use a 10-year bond rate to determine MTC's WACC.

Using a 10-year framework should give the same WACC as using a 5-year framework as the debt margin and the market risk premium should also be based on the appropriate framework.

The figure that the ACCC used for debt margin is 1.45%. Powerlink's WACC was calculated using a debt margin of 1.20% - and this was on a 5-year bond rate framework.

To convert a debt margin that is applied to a 10-year framework to one which is to be applied in a 5-year framework, the difference in the yield rates should be added to the 10-year debt margin. Powerlink's analysis indicates that the difference in the 5 year and 10 year bond rates was 0.32% at the time of calculation for the Preliminary View.

This implies that the correct debt margin that the ACCC would apply for a TNSP using a 5-year framework is 1.77%.

Powerlink has no objection with the ACCC using a debt margin of 1.77% in the calculation of Powerlink's WACC.

When applying a 5-year framework to the parameters used in the Preliminary View, the adjustment to the debt margin is not sufficient to arrive at the vanilla WACC figure of 8.45%. The market risk premium also needs to be adjusted. Powerlink's assessment is that the value of market risk premium needs to be 6.3% in order to arrive at the 8.45% vanilla WACC.

Powerlink's WACC was calculated using a market risk premium of 6%.

Powerlink has no objection with the ACCC using a market risk premium of 6.3% in the calculation of Powerlink's WACC.

It is Powerlink's view that the changes to these parameters represents a regulatory trend in the right direction. However, if the ACCC does not intend to use these adjusted parameters on TNSPs that are subject to a 5-year framework, MTC's WACC is approximately 0.5% too high.

Yours sincerely,

G H Jardine

Gordon Jardine
CHIEF EXECUTIVE