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Dear Paul

LETTER FROM QUEENSLAND MINING COUNCIL RE POWERLINK'S REVENUES

The Queensland Mining Council ('Mining Council') raised a number of matters which require comment:

1. Cost of capital

We agree with the Mining Council's conclusion that the ACCC should apply the precedents in its TransGrid determination in deriving the WACC for Powerlink. This would deliver the underlying consistency which all parties rightfully expect from a National Regulator.

Whilst the ACCC should apply the basic principles from the TransGrid determination, it must also be able to recognise where, in applying the detailed parameters, there are any differences between the networks.

Powerlink's submission is that the Queensland network is a relatively higher risk business than other networks—including TransGrid's—due to:

- its high loading;
- its long thin topology; and
- the threat from gas pipelines proposed to run precisely in parallel with it.

Powerlink is asking the ACCC to recognise that whilst many transmission networks face common risks (such as an 'as yet unsettled set of regulatory principles'), there are also some local differences in the risks such as the ones outlined above.

The Mining Council's suggestion that the Queensland energy policy make the background more certain for Powerlink is not correct. The policy may favor one fuel source, but the risks to the Powerlink network are fundamentally locational. The gas policy, combined with the geography of the gas pipelines, will favor generation closer to the load centres, thereby stranding part of the grid. Other entities, e.g. potential coal-fired generation faced with the risks from gas have the 'do nothing' option and the 'wait and see' option as part of their investment choice. Thus, a coal-fired generator (like the Kogan Creek project mentioned by the Council) can make a decision to 'do nothing' or 'wait and see' how the gas developments emerge.

The over-arching mandated requirement to meet reliability standards for those load centres forces Powerlink to 'do something'—the risk reduction strategies available to other investors ('do nothing' or 'wait and see') are not available to Powerlink. This is clearly a higher investment risk which needs to be recognised in the rate of return. The alternative is to remove the mandated reliability requirement to 'do something' so that Powerlink could also opt for the 'do nothing' or 'wait and see' investment positions.

In addition, whilst we note the Mining Council's observations about the lower interest rate environment, we believe that the ACCC has to take a realistic approach to this and recognise that large lumps of debt (in Powerlink's case, over $1 billion) cannot be readily re-financed to follow the spot market. We would expect that the Mining Council's members are familiar with the practical limitations of re-financing debt, and that the ACCC will take a practical, rather than academic, approach to the matter. In short, we have no problems with passing through to customers the benefits of lower interest rates which we can practically achieve.

The Council also asserted that Powerlink had some stranding mitigation arrangements in our connection contracts. This is true in relation to the small portion of our assets which are 'connection assets', but is not so for the shared grid which comprises the majority of our assets. Our concerns about asset stranding relate to the shared grid.

Finally, whilst the Mining Council has focussed on 'talking down' the WACC which the ACCC should assign to Powerlink, it must be recognised that the cost to customers of a low WACC would be under-investment in the grid. The impact of that on the most constrained and most heavily loaded grid in the NEM will be substantially higher energy prices as a result of network constraints and accelerating MLFs as load grows. These added-costs would far outweigh any TUOS savings.

2. Operating costs

The Council's assertion that Powerlink is not offering any future operating cost-efficiency savings is not correct:

(a) all savings which have been achieved so far are automatically locked in for the future;

(b) the costs in future for performing the same activities as previously include year-on-year efficiencies, and PB consultants have been able to verify that at a detailed level; and

(c) the corporate costs in the first year are 7% below the level for the same year allowed by the previous regulator (Queensland Electricity Reform Unit), and this has been noted by PB consultants. That first year level is the base for future years, thereby sustaining that cost reduction.

Thus, there are significant operating cost-savings, and this reinforces Powerlink's leadership in cost–efficiency.

Yours sincerely

GH Jardine

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CHIEF EXECUTIVE