

11 July 2003

Mr Sebastian Roberts
Acting General Manager
Regulatory Affairs – Electricity
Australian Competition and Consumer Commission
GPO Box 520J
Melbourne 3001

Dear Sebastian

**SUBMISSION IN RESPONSE TO PRELIMINARY VIEW
APPLICATION BY MURRAYLINK TRANSMISSION COMPANY FOR
CONVERSION TO A PRESCRIBED SERVICE**

SPI PowerNet is pleased to provide comments in response to the Commission's Preliminary View on the eligibility for the Murraylink interconnector to be converted to a Prescribed Service and the Maximum Allowable Revenue that may subsequently be charged for provision of the prescribed service.

Our submission provides comment on the Commission's inclusion of a capital expenditure provision in Murraylink Transmission Company's (MTC) regulated asset value, and offers some broader observations concerning the NEMs transmission investment framework.

1. ALLOWANCE PROVIDED FOR NETWORK AUGMENTATIONS

The ACCC Preliminary View has provided for a capital expenditure allocation to MTC to increase the capability of the facility (refer Table 3, Executive Summary). SPI PowerNet submits that such an allocation is inappropriate, as the works do not constitute augmentation of the Murraylink facility but are augmentations within the Victorian transmission network, remote from the Murraylink facility.

SPI PowerNet understands that the augmentations include capacitor bank installations at up to 5 of SPI PowerNet's terminal stations and upgrading of SPI PowerNet's network communications facilities to provide the monitoring of line loading for up to 9 SPI PowerNet transmission lines, which is necessary to "run back" Murraylink in the event of line overloading.

In its Preliminary View, the Commission has provided for these network augmentations is if they are to be Murraylink assets. It should be noted that the existing capability of Murraylink is already subject to specific support services provided to MTC by VENCORP, utilising assets owned and provided by SPI PowerNet.

The planning and directing of augmentation for the Victorian shared transmission network is the sole responsibility of VENCORP. The augmentations necessary to optimise the capability of Murraylink should not be allowed to by-pass jurisdictional

arrangements. Therefore the proposal for MTC to include the augmentations in its asset base is tantamount to a usurping of VENCORP's role.

To clarify the Victorian arrangements, the augmentations necessary to optimise the capability of Murraylink should be planned and procured by VENCORP, not by Murraylink. The Commission should seek clarification from VENCORP on the quantum of costs that are to be recovered from MTC and provide a passthrough of this cost in its O&M allowance. SPI PowerNet would be pleased to provide a more detailed explanation of the arrangements for the planning and procurement of shared network services in Victoria as it applies to this situation, should this be of interest to the Commission.

However, SPI PowerNet also queries whether the inclusion of augmentations to increase the capability and utility of Murraylink should require analysis of the incremental costs and benefits as one of the alternative projects. The automatic inclusion of the augmentations in the base case leads to the apparent conclusion that a 220MW inter-connector will maximise net market benefits (the criterion to pass the Regulatory Test). We are not confident that this has been demonstrated.

2. OBSERVATIONS CONCERNING TRANSMISSION INVESTMENT FRAMEWORK

The advent of the Murraylink inter-connector has been accompanied by significant controversy. There are claims and counter claims concerning the rights of the regulated and merchant alternatives and of the relative efficiencies between the alternatives. The transmission investment process has become substantially subject to internal litigation. Controversy is not limited to establishment of the inter-connector but is also a feature of the process of determining whether or not Murraylink may be granted approval as a regulated inter-connector.

The present market design, which accommodates the co-existence of regulated clearly has significant shortcomings. SPI PowerNet is not confident that either the regulated or merchant (arbitrage) transmission alternatives provide the most efficient outcomes to market customers, or adequate and timely transmission investment. Where these alternatives co-exist the contest that develops between the alternatives in seeking to seize an opportunity and to hold a position of power has proven to be nothing but destructive. In SPI PowerNet's view this controversy in itself leads to the potential for further delays in regulated investment and provides a strong disincentive for any commercially developed transmission augmentation to proceed.

SPI PowerNet considers that an alternative transmission investment framework is necessary to deliver appropriate transmission investment for the NEM. The framework envisaged by SPI PowerNet is one that engages market participants by obtaining their acceptance of transmission investment options, including their agreement to meet the investment costs. The approach is described in a number of public submissions made by SPI PowerNet¹.

¹ SPI PowerNet's vision for transmission participation in the NEM is outlined in various submissions to industry reviews and consultation processes. These include the COAG Energy Market Review (2002) and the ACCC Review of the Regulatory Test (2002, 2003). These submissions may be found at the review websites, otherwise by contacting SPI PowerNet

For this approach to be possible it would be necessary to address a number of current deficiencies in the NEM, including:

- The present limited knowledge of transmission issues and impacts by market participants;
- The incentives for market participants to be actively involved in the transmission investment and approvals process given the natural recourse to regulated solutions;
- The inadequate signals for transmission investment provided in the energy market and the ability of market participants to factor these into their own investment decisions; and
- The poorly defined service provided to market participants by a new transmission facility.

SPI PowerNet considers that these factors may be the key to the development of an effective transmission investment framework.

Each new decision that is brought down relating to transmission investment bears upon the ability of the effectiveness of the overall framework. SPI PowerNet is concerned that whatever determination is made by the Commission, it should be cognisant of the potential to further damaging the attainment of a sensible planning and augmentation process, and guard against this possibility.

We would be pleased to discuss the contents of this submission with you and provide any further information to assist in your considerations.

Yours sincerely

(signed) Charles Popple

GENERAL MANAGER COMMERCIAL