



20 April 2001

Mr Michael Rawstron
General Manager
Regulatory Affairs - Electricity
Australian Consumer and Competition Commission
P.O. Box 1199
Dixon ACT 2602

Dear Michael,

Powerlink reset – PB Associates Operating and Maintenance Cost Review

Thank-you for inviting SPI PowerNet's comments in relation to the recent consultancy report by PB Associates on Powerlink's operating and maintenance cost forecasts. At this time, SPI PowerNet does not wish to offer any direct comments on Powerlink's revenue cap application or on PB Associates's review of Powerlink's capex proposals. We are still in the process of reviewing the asset valuation review by PB Associates and may make comments on it in the near future.

In relation to the operating and maintenance cost review by PB Associates, SPI PowerNet wishes to comment on two issues: the information value of benchmarks for regulatory purposes; and the network parameters for SPI PowerNet cited in the review report.

Information value of benchmarks

While the benchmarks used in the review are of interest, they are too high level to provide any realistic view of the relative efficiency of the companies included in the comparisons. They are, at best, a course screening tool to check if a utility is around the expected cost level. If outside this level, then further analysis is required to consider local drivers that influence the cost structure. The benchmarks themselves do not readily support conclusions regarding relative efficiency.

Please note that SPI PowerNet is not suggesting that Powerlink is anything other than an efficient provider of transmission services.

In section 8.2, PB Associates states that "Powerlink has superior performance in both operating cost per asset value and circuit km to all Australian transmission companies." SPI PowerNet believes that the course nature of these indicators cannot support such definitive conclusions. For example, the PB Associates report does not consider the robustness and scope of the asset base valuations and overlooks the rather obvious asset management and numerical factors that will result in utilities with an older asset base appearing less efficient on the cost per asset value measure.

As a relatively small percentage of a utility's total operating and maintenance expenditure is directly related to line maintenance costs, the measure of operating and maintenance costs per circuit km is not an indicator of total operating and maintenance efficiency. In addition, there are significant compositional differences in the networks compared by PB Associates. For example, while SPI PowerNet does have fewer kms of lines these are at a considerably higher voltages than those of Powerlink and are also older. As a consequence the maintenance burdens on both SPI PowerNet's transmission lines and other equipment are higher.

As a consequence of these limitations on the use of high-level performance indicators, it would appear difficult, on the basis of benchmarking in the published report, to make the statement in Section 8 that "Other comparisons carried out by PB Associates with Australasian companies also show in most cases that Powerlink's costs are lower."

Network parameters cited in the PB Associates report

With respect to Table 1 on page 6 of the report (Network parameters), the number of substations can be very misleading as an indicator of size or complexity of a network. While SPI PowerNet has 44 substations many of these have multiple transformation voltages and by international standards are quite large. In many authorities a separate substation is established for each voltage transformation. On this basis SPI PowerNet would have 86 substations. When comparing the maintenance effort required per station this figure is a better indicator than the 44 substations quoted by PB Associates.

Also for the comparison of SPI PowerNet lines the following should be used:

Voltage	Overhead Line Circuit kms	
	SPI PowerNet	PB Associates
Total	6,564	5,995
500	1,516	1,017
330	739	739
275	157	157
220	3,975	3,941
66	177	141

NOTES:

1. The circuit km's is based on the design operating voltage of the lines, which in a few instances differs from the actual operating voltage.
2. Where higher rated circuits are composed of two lines operating in parallel, the circuit kms have been taken as the addition of both line circuit kms.

If you have any questions or comments regarding this letter please contact me on 03 9567 7465.

Yours sincerely,

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