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Dear Gordon

ACCC Determination for Powerlink Revenue Cap

Thank you for the opportunity to comment on issues relating to ACCC's revenue cap determination for Powerlink Queensland as presented in your discussion papers dated October 2000.

Forecasting Capital Expenditure

It is an undisputed fact that generation and transmission are "competitors" in the National Electricity market. Transmission investment has a significant impact on the competitive position of a generation business, in particular the effects of loss factors and transmission constraints. The investment risk of a generator is significantly higher than that of a regulated monopoly business. Generation business planning cannot occur without some certainty on forecast transmission investments. Longer term certainty of customers also can not occur without transmission certainty.

In an environment of uncertainty CS Energy believe it is appropriate that a probabilistic approach to Powerlink's revenue cap be adopted to provide stability in Customer transmission charges, provided it is accompanied by full information disclosure as described below. This is based on the understanding that investment that actually proceeds will be required to comply with the Net Benefits Test and that a revenue associated with over-estimation is deducted from future revenue caps at reviews.

CS Energy acknowledges that different scenarios may exist for network development depending on various generation and demand options. This is a factor of an open access market.

Powerlink's investment program is a key input to Participant's own planning and risk management functions. Powerlink have determined that they are unable to determine an investment plan with certainty. For the forecast range of costs and probability of investments to have credibility, the planning of scenarios must have been done in some detail. It is essential that all information regarding the scenarios considered, underlying assumptions, and their impacts on participants, be made available to Participants so that they can make their own judgement on possible scenarios and probability of occurrence. As a principal, full disclosure of a regulated monopoly's plans is a must to allow other Participants to assess the risk of their own investments.

Given the current outlook it is also appropriate that a mid-term review be carried out for years 4 and 5 based on actual investment to date and a reviewed forecast.

Regulated Contracted Network Services

CS Energy believe it is appropriate that contracted services such as grid support, constraint contracts be provided for in Powerlink's revenue cap. Also given the Regulatory and physical uncertainty associated with these services, cost plus arrangements are appropriate for the first regulatory period. This should be reviewed for future regulatory periods.

Nothing in the submission is considered confidential.

Yours sincerely

R I Cottee
CHIEF EXECUTIVE

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