

An assessment of the Issues

surrounding

Murraylink Transmission Partnership application

for the

***Regulated status of the Murraylink Electricity
Interconnector between Victoria and SA***

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Prepared by Headberry Partners P/L on behalf of

***ElectraNet SA,
The Electricity Consumers Coalition of South Australia
and
The Energy Users Coalition of Victoria***

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Executive Summary

Murraylink Transmission Partnership (MTP) has submitted an application to the ACCC for conversion of Murraylink to regulated status. The application was prepared by Murraylink Transmission Company (MTC).

The application brings to the fore the fundamental issue that the national electricity network must be augmented to suit the users of the network. Previously state governments encouraged augmentation to achieve state based goals and made some decisions which have later proved not to be in the interests of national interchange of electricity. There is a need to ensure that the approach to converting a market based augmentation to regulated status does not continue augmentation of the national network the following the sectoral interests of the past.

The reforms which underpin the whole of the deregulation of the electricity market were two fold - one was to bring a national focus to the electricity market and the second was ultimately to reduce the costs to electricity consumers by reducing the monopoly rents, poor practices, and poor controls extant throughout the vertically integrated state based electricity supply monopolies.

The ACCC has the discretion to decide whether it will approve the integration of Murraylink into the national network as a regulated interconnector in the full awareness that there may be more cost effective solutions (both technical and commercial) to achieve the same outcomes as Murraylink, being constructed, approved, or being approved in principle, to increase the capacity for electricity flow between South Australia and Victoria.

If the ACCC considers that the technical benefits of Murraylink can be more effectively provided by alternative means (ie. that Murraylink is technically suboptimal), then it must decide whether Murraylink is entitled to be a regulated augmentation at all. If the decision is that Murraylink is technically appropriate but economically suboptimal as a network augmentation, the ACCC has to decide whether to permit its conversion to regulated status with a revenue cap calculated on the value of the most optimal of the alternatives. As Murraylink has sought a ten year regulatory period, the ACCC has also to consider whether a regulated Murraylink would be adversely impacted during the regulatory period when the already approved (but subject to appeal on legal grounds) SNI project is brought into operation.

The ACCC has also to assess whether its decision will create a precedent which allows the construction of other augmentations under the guise of being market based augmentations, but which in reality becomes a surrogate route

for later regulation due to the very fact of them “being there”, ie. a gaming of the rules for transmission augmentation. Acceptance of this approach could well lead to an overall suboptimal development of the national transmission network.

The regulator must use its permitted discretion to assess whether inclusion of the augmentation on a regulated basis is in the long term interests of users of the network. This paper demonstrates that there are sufficient grounds for the ACCC to use the discretion permitted under the National Electricity Code, not to approve the conversion of Murraylink to regulated status.

This paper also demonstrates that although there is a mechanism for the ACCC to use its regulatory test in the evaluation of such a conversion, there has been insufficient examination by Murraylink Transmission Company of the benefits to the electricity market of the Murraylink augmentation, and of alternative solutions for achieving these benefits. This paper propounds that there are lower cost alternatives to Murraylink to provide these benefits. In this regard the Murraylink application is deficient and does not meet the standards of examination set (say) in the review and approval process of SNI.

Further it is quite clear that all of the alternative augmentations suggested by MTC assume that Murraylink has a capacity to transfer 220 MW both towards South Australia and towards Victoria. This assessment by MTC is shown to be flawed by the ACCC consultants (PBA) who suggest that the actual transfers possible are significantly below the MTC stated capacity of Murraylink. Because of this the alternatives proposed for comparison require to be changed to reflect the lower transfer capabilities.

Shortcomings in the application could be overcome if the ACCC applies a requirement for MTC to undertake public consultation and IRPC reviews similar to those required for applications of regulated augmentations.

MTC has advised its views on the parameters underlying the development of the revenue cap for Murraylink. The ACCC should disregard the MTC views and use the same parameters used in the recent ElectraNet SA and SPI PowerNet revenue decisions.

MTC has requested that the regulatory period before the next review should be ten years. The ACCC should examine the implications of this request, as there is every chance that during this period SNI, augmentation of Heywood interconnector and the Riverland are scheduled to be complete, as is a further augmentation of the NSW to Victoria interconnection. To grant such a long period before review, may permit Murraylink to regulated income despite transferring minimal electricity between South Australia and Victoria.

The Issues

Some recent history

The overall operation of the electricity market in Australia was reviewed in the later stages of the twentieth century at two basic levels - could it be operated more effectively (a review for a national grid) and it could it be more cost effective (Hilmer). The answer to both these independent assessments supported the view that stronger interconnection of the essentially state base electricity grids would enable better use of existing resources, and that the state owned electricity assets were being used as surrogate taxation, were financially inefficient and incorporated monopoly rents.

Arising from these reviews the National Electricity Code (NEC) was developed, and based on the protections afforded by the NEC, some state governments have sold (or effectively sold) the assets to private enterprise. Despite the identified need for centralized planning of the national electricity transmission network, in the fervor for using private funds to augment the assets a concept was incorporated permitting Market Network Service Providers (MNSP's) to provide elements of the national grid which would provide a return to the proponent and, in theory allocate the cost of the augmentation only to those specifically using the new asset. This approach is a unique feature of the Australian system not replicated elsewhere in provision of transmission systems, as other electricity networks recognize the need to keep the transmission backbone sensibly and centrally controlled, with the interests of all users of the system being seen as the key determinant for augmentation.

The ACCC developed a "regulatory test" to ensure that a benefit must accompany an augmentation if the cost is to be allocated to all users of the transmission system ie. a regulated augmentation. Market based augmentations do not need to demonstrate any benefit to users, but to be commercial they must have sufficient income from users of the specific augmentation to fund a return to the proponent.

The ACCC regulatory test implicitly requires an augmentation to provide the optimum solution to a constraint in the transmission network.

Since the establishment of the national electricity market (the NEM) there have been two market based augmentations built¹. The first was "Directlink" connecting north eastern NSW to south eastern Queensland. The decision to build this augmentation was made subsequent to the commitment of the Queensland and NSW governments to build a much larger regulated link (QNI) between the two states. QNI has been a great success and fundamental to the

¹ A third, Basslink, between Victoria and Tasmania is still being developed

normalization of prices between the two regional electricity wholesale markets. Flows on Directlink since operation of QNI began have been quite modest².

The other market based augmentation has been Murraylink, which came into operation late in 2002. This was constructed in the full knowledge that there was an existing interconnection between the two regions of South Australian and Victoria through Heywood (often referred to as SAVic 500), and a regulated link proposed between New South Wales and South Australia (SNI).

General observations

Augmentation of the national electricity transmission network is generally accepted as a positive move towards providing greater competition amongst electricity generators and an improved opportunity for electricity consumers to obtain greater competition for electricity supply causing a reduction in their overall electricity costs. Currently the strength of Australia's regional interconnection is relatively weak when compared to the development of the state based intra-regional networks and therefore in principle, increasing regional interconnection is seen as desirable and beneficial to the national interest.

As the provision of regulated network augmentation (and in particular, regional interconnectors) is seen as providing a cost to all electricity network users, the ACCC established the Regulatory Test to ensure that network augmentations are provided not only at the lowest possible cost but also providing a demonstrable benefit to the electricity market and to the community which ultimately pays for the augmentation. The benefit to a network asset owner of having its asset regulated is that the owner is entitled to receive an effectively guaranteed income, relatively independent of the usage made of the augmentation.

Augmentation of the national network can be carried out bypassing this regulatory test, but the risk of usage then lies fully with the asset owner.

Interconnection between New South Wales, Victoria and South Australia

South Australia is recognized as having quite limited fuel supplies available for electricity generation, and what is available is relatively higher priced compared to fuel in other states, resulting in higher electricity production costs. Consequently South Australia has been a consistent net importer of lower cost electricity from other states. Recent observations of the pricing approach by South Australian based generators would seem to indicate a major shift in electricity generation production costs. There are a number of contractual and

² Estimates indicate that Directlink may be idle for as much as 70-80% of the time

hedging strategies used by the South Australian generators which has led to this recent pricing trend and care is needed when using the regional pool price differentials as part of any assessment for interconnection projects.

Since the introduction of the national electricity market in 1998, it has been observed that wholesale electricity market prices (“pool prices”) in South Australia have been consistently higher than in the neighboring state of Victoria, indicating a shortfall in generation capacity, and a higher fuel cost structure. Completion of government-driven augmentation of generation capability in South Australia (notably Pelican Point power station) has reduced the pool price differential between Victoria and South Australia, such that recently there has been even export of electricity from South Australia to Victoria.

Notwithstanding this recent change to the pattern of pricing, there continues to be a perceived need for greater interconnection between these two states, but even more so between South Australia and New South Wales. As a result projects have been completed and proposals have been made for

- augmenting the NSW and SA transmission assets to interconnect these two states directly (SNI),
- increasing the ability of transfer between Victoria and NSW (SNOVic 400 built, reviews of SNOVic 800 and NewVic 2500),
- increasing transfer between Red Cliffs Victoria and Monash South Australia by a new interconnection (Murraylink), and
- increasing the carrying capability of the existing SAVic 500 “Heywood” interconnection (SAVic 650, SAVic 800 and Southernlink).

The Murraylink application

Murraylink Transmission Partnership (MTP) has provided a regional interconnection between the Victoria and South Australian regions by constructing a connection between Red Cliffs in Victoria and Monash in SA. It elected to build this as a “market based” augmentation of the national electricity transmission network rather than as a regulated augmentation. MTP could have sought to build the augmentation as a regulated asset, but MTP elected to pursue the opportunity on a market basis.

In November of 2002 the ACCC provided a final decision on the application by Murraylink Transmission Company (MTC) for an Access Arrangement under the Trade Practices Act as a market network services provider (MNSP) for an interconnection between Victoria and South Australia.

In October 2002, MTC applied to the ACCC for the interconnector to be converted to a regulated interconnector, with a prescribed revenue cap.

The ACCC has prepared an Issues Paper dated February 2003 regarding the “conversion of Murraylink”. This paper raises a number of basic issues.

1. MTC’s proposed approach to adopt the regulatory test as the basis for assessing the conversion application.
2. MTC’s application of the regulatory test, particularly MTC’s approach regarding the selection of alternative projects and the calculation of Murraylink’s market benefits
3. MTC’s use of the ‘regulatory cost’ of Murraylink to determine an opening asset valuation.

The issues paper also seeks input to:-

1. MTC’s application of the regulatory test;
2. MTC’s approach regarding the selection of alternative projects;
3. the appropriateness of using the value of Murraylink’s market benefits as MTC’s opening asset value;
4. whether MTC’s selection of alternative projects constitutes a material advantage over the process specified by clause 5.6.6;
5. whether there are material differences between the 5.6.6 process for assessing new large network assets, and the approach used by MTC;
6. the Commission’s interpretation of the code clause 2.5.2(c), and any other code provisions that are relevant to new interconnectors in the NEM;
7. the circumstances under which an MNSP should be able to apply for conversion; and
8. whether the Commission should have regard to the fact that MTC has operated as an MNSP since October 2002, if it sets a revenue cap for MTC.

Should conversion of Murraylink to regulated status be permitted?

General Observations

The ACCC points out that clause 2.5.2(c) of the NEC states that

If an existing *network service* ceases to be classified as a *market network service* it may **at the discretion of the Regulator** or *Jurisdictional Regulator* (whichever is relevant) be determined to be a *prescribed service* or *prescribed distribution service* in which case the *revenue cap* or *price cap* of the relevant *Network Service Provider* may be adjusted in

accordance with Chapter 6 to include to an appropriate extent the relevant *network elements* which provided those *network services* (our emphasis).

There can be little doubt that conversion from market based to regulated basis is foreshadowed by the Code and is permitted, *but only at the discretion of the regulator*. The regulator must as its first step in its assessment determine whether its discretionary right in favour of conversion should be invoked. It is clear from questions raised in the balance of the Issues Paper that the ACCC would have appeared to have already decided that conversion will be permitted, but the ACCC must openly state why it has elected to use its discretion to permit the conversion.

Neither the NEC nor the ACCC has provided guidance as on what bases the ACCC should exercise its discretion to grant a conversion. It is not sufficient just to decide what value for the Regulated Asset Base (RAB) is to be placed on a conversion, as proposed by MTC. Before this happens the regulator has to specifically assess whether the asset to be converted will *increase the technical performance of the network in a way which could not be achieved by alternative means for a lesser cost*. If the regulator assesses that alternative solutions can achieve the same technical benefit, the regulator must then consider the maximum benefit these alternatives can deliver.

It could be assumed that because Murraylink can and will in fact increase the inter-regional transfer of electricity, there is a clear case for the regulatory discretion to be exercised in favour of conversion. MTC has assumed (and this has not been challenged) that the market needs two way 220 MW transfer capability between Victoria and South Australia. Further there has been an implicit assumption by MTC (and by the consultants employed by the ACCC) that the ACCC will exercise regulatory discretion in favour of conversion, but without considering the basis for the ACCC to do so.

What is absent from any assessment, is whether Murraylink, in its current form, can provide a *regulated service* which can be operated within a free flowing AC system. There is no statement of the outcomes³ expected from Murraylink operating as a regulated augmentation. Once this is provided an assessment can be made as to whether these outcomes are needed by the transmission network, as then an assessment can be made as to the ability of alternatives which to deliver the same outcomes identified as needed by the electricity market.

³ The term “outcomes” is deliberately used to differentiate what the market needs, and the statement of capabilities of Murraylink provided by MTC

The permission granted by the Code for the exercise of regulatory discretion in the instance of conversion to regulatory status, is an unusual feature of the NEC. Generally the Code is quite prescriptive, frequently providing quite specific directions to the regulator. The inclusion of the discretion in this instance implicitly places a more stringent obligation on the regulator to explain the reasons for the exercise of the discretion. The decision of *Epic vs Offgar*⁴ reinforces the requirement of the regulator to fully explain the reasons for use of its regulatory discretion.

The regulator must bear in mind that a market based augmentation is designed and constructed with commercial success being the sole driver behind its operation. As commercial operations tend to have shorter time frames for gaining a return than is anticipated by the returns established under the Code for regulated entities, the regulator must assess the whether the market based augmentation is appropriate to be integrated as a regulated element into the network. To be accommodated under the regulatory test, an augmentation must optimize the long term operation of the network, delivering the maximum market benefit. Thus the regulator must assess whether the design and location of the market based augmentation does in fact optimize the operation of the “free flowing” regulated network.

The Code also requires the regulator to “optimize” the cost/benefit of the network as part of each of the regulatory reviews for revenue price caps. In the exercise of its discretion the regulator must assess whether the acceptance of the conversion of a market based augmentation, will optimize the operation of the network. As part of the explanation of its regulatory discretion the regulator must explain how the augmentation optimises the network, bearing in mind alternatives, whether recently constructed, approved or in the planning stage.

The Murraylink application - a commercial view

In the application MTC comments that

“ ... the NEM has experienced a high level of uncertainty particularly in relation to the interaction between the competitive and the regulated segments. As a consequence of that uncertainty, MTC now believes that Murraylink is more appropriately operated to provide a prescribed service in the same manner as most other transmission assets in Australia.”⁵

It would appear that the reference by MTC to the “uncertainty” in the NEM caused by interaction between regulated and market segments, arises from the extended approval process faced by the SNI project. The SNI project has was

4 Supreme court of Western Australia: re Dr Ken Michael AM; ex parte Epic Energy (WA) Nominees Pty Ltd & anor [2002] wasca 231

5 MTC application dated 18 October 2002, Executive summary, page ii

first mooted as an interconnector well before any work on Murraylink was commenced, and the SNI project has now received NEMMCo approval. The continuance of this “uncertainty” faced by Murraylink could well be in part related to actions of MTC (and others) from their appeals against decisions regarding the SNI project. Thus the reason noted by MTP leading to its decision for conversion may well lie within the power of MTC to mitigate.

As the process to gain SNI approval was well in train prior to the commitment to proceed with Murraylink, it should be accepted that MTP (as the Murraylink proponent) elected to take a commercial risk that competing project SNI would not be approved. Thus for MTC to now allege that it is the uncertainty within the NEM which drives the need for conversion is, at best, facile or, at worst, duplicitous.

Because of this possible construction on events, the ACCC should have regard to the concerns for the views of the NECA working group examining market interconnectors.

“... it is important that the conversion option should not shield the proponent from normal commercial risks, e.g. the risk of having over-judged the future demand for the interconnection service. It is therefore essential that the regulated revenue entitlement is based on the assessed need for the facility at the time of the application, rather than guaranteeing a return on the original capital cost.”⁶

The report goes on to say

“Care would be needed to ensure that there was no scope to obtain windfall gains by strategic alternation between regulated and non-regulated status.”⁷

An application for conversion from market based to regulatory status implies that the asset owner is concerned that the returns anticipated from continuing the market based operation will, in the balance of probability, return over time less to the owner than operating as a regulated augmentation⁸. The financial commitment of a market based augmentation recognizes that there is a benefit to the market, much of which it is anticipated by the asset owner will be captured for itself. Conversion is effectively a transfer of risk from the asset owner to users of the augmentation. Thus for a conversion to provide a benefit

6 NECA Transmission and Distribution Pricing Review, Working Group on Inter-regional Hedges and Entrepreneurial Interconnectors, Entrepreneurial Interconnectors: Safe Harbour Provisions November 1998, page 9

7 *ibid*, page 9

8 By way of example, the annualised returns for Murraylink since it commenced operation have been estimated by some to be as low as \$4m pa, when operating during a typical summer. This needs to be compared to the regulated revenue sought of over \$23m pa

to all network users, there needs to be a greater benefit to users under a regulated regime, than users will get under the market based regime. Put another way - the net benefit to users of a regulated augmentation needs to be greater than the net benefit to users of the market based augmentation to compensate for the transfer of risk, for a conversion to be permitted.

To provide an additional method of demonstrating there is a benefit to users by permitting a conversion MTC could provide operating data which provides the actual return to MTP from operating Murraylink as a market based augmentation. To assess the benefit to users of the conversion, the amount of benefit achieved by MTP would need to be discounted to reflect the transfer of risk. This approach reinforces the concern voiced by NECA's working group on inter-regional hedges and entrepreneurial interconnectors about strategic alternation.

The ACCC must take care when exercising its discretion that it is not permitting a conversion which is the result of a negative outcome of an identifiable (and identified) market risk at the time the decision was made to commit to the market based augmentation. Further the ACCC must be convinced that the request for conversion is not an attempt to maximize windfall gains (or alternatively to minimize loss) by strategic alternation between market based and regulated status.

The Murraylink application - a technical view

Murraylink has been designed as a controllable link, allowing the link to be loaded to maximize the revenue needed for a market based interconnector. This controllability is achieved by converting the electricity from AC format to DC format and then back to AC. As such Murraylink incorporates a number of equipment items not usually associated with AC transfer, which in operation will cause a delay in reaction times when changed circumstances occur. This delay could comprise a number of "electricity cycles" which may have an impact to both upstream and downstream equipment and protection devices. Already there has been expenditure for assets within the PowerNet system to minimize the impact of the unique operating features of Murraylink. A review is needed to assess whether further expenditure is needed in order to obtain the maximum benefits from Murraylink.

Additionally, being controllable, the link will require either manual or automatic actuation to provide for the transfer of electric power, again affecting system reaction times. Whilst these delays can be (and are) accommodated, the link as designed has features which may be detrimental to the "free flow" of electricity when compared to alternative options for achieving the targeted power transfer.

The unique features of the Murraylink design results in significant losses as the electricity passes through the converters from AC to DC and back to AC. These losses do not occur anywhere to the same extent on a free flowing AC interconnection. As these losses depend on the amount of flow of electricity, the cost of these losses over the expected life of the link needs to be quantified and assessed as a part of the ACCC decision.

Thus in assessment as to whether the regulator should exercise regulatory discretion in favour of permitting conversion, there should be an assessment as to the appropriateness of the design of the link to provide for the free flow of electricity expected with a regulated interconnector.

Notwithstanding this detriment in design of Murraylink for providing free flow of power, there is no doubt that Murraylink can provide additional transfer of power between Victoria and South Australia.

There is a strong argument that the proponents of Murraylink were aware of the risk of alternative projects minimizing the long term profitability of Murraylink. The subsequent actions of the proponents in attempting to thwart the construction of SNI support this view. It would appear that the application for conversion to regulated status of Murraylink is driven by an attempt to obviate a market risk clearly taken with full knowledge of the potential downside.

The ACCC must assess whether the inclusion of Murraylink will optimize the operation of the network, bearing in mind the other constructed, approved for construction and planned regulated augmentations of the network.

The ACCC must fully explain on what basis it has decided to exercise regulatory discretion in favour of accepting the application for conversion of Murraylink from a market to a regulated basis.

As part of its explanation of how it uses its discretion, the ACCC must examine whether the detriments of the Murraylink design militate against the use of this discretion favoring acceptance of the application for conversion.

Can the Regulatory Test be used for a “Conversion”?

General observations

The Regulatory Test of 1999 established by the ACCC clearly assumes that the test will be applied prior to an applicant committing significant expenditure on any network augmentation. It also requires the applicant to include into its assessment of the market benefit of its augmentation any and all other committed, planned or contemplated augmentations which might impact on the benefits assessment of the proposed augmentation.

The proponents of market based augmentations have an option at the commencement of their decision process - that of whether to apply for regulated status, or to build a market based augmentation. Thus as the Code provides a mechanism for conversion to regulated status, this allows the proponents to select what is considered by them as the optimum solution based on the then predictions for the electricity market at the time they make their election.

When assessing a “market based” augmentation, the proponents of the augmentation will make an internal business case based on the likely regional wholesale (pool) price differential over the life of the project, including the probabilities of new generation and demand side responses, as well as the likelihood of competing regulated augmentations being constructed. Similarly the decision to convert to a regulated basis will also be made as a commercial decision based on the information available to the proponents *at the time of the request to be permitted to convert*.

The regulator must therefore assess any market benefits and detriments resulting from the conversion to regulated status, on the basis of the market information available at the time of the request to convert. To use any earlier information (or lack of it) provides the proponents with a right not available to another party proposing an augmentation to achieve a similar market benefit. Because the market based option proponent has already instituted an augmentation, it perforce has the benefit of immediate availability.

It should be noted that until the applicant for conversion accepts the rules under which the regulator will permit the conversion to regulated status, the asset continues to operate as a market based augmentation. The point in time when the regulatory decision is accepted becomes the time at which the project commences for the purposes of the regulatory test.

Thus a conversion to regulatory status can be assessed as would any other application for regulated augmentation, but recognizing that

1. the project commencement is assumed to be the date of the acceptance by the augmentation owner of the basis under which the regulator has determined conversion is acceptable
2. the construction start date is the date of acceptance of the conversion by the asset owner
3. the construction duration is zero, and
4. the commissioning duration is zero

Explicit in the regulatory test is the need to set the value of the augmentation in order to establish the net present value of the market benefit of the augmentation and then to calculate the approved revenue cap. Whereas a proposed regulated augmentation has an estimate of the value of the works to be undertaken, the augmentation to be converted has a known cost which can be used for the valuation of the regulatory test and the revenue cap calculation.

However the regulatory test requires that a regulated augmentation

“maximises the net present value of the market benefit having regard to a number of alternative projects, timings and market development scenarios”.

Thus the capital value of the augmentation to be converted must be the lower of the actual cost of providing the augmentation and the estimated cost of the alternative(s) which will provide the maximum net present value of benefits for the least cost.

The ACCC could use the existing regulatory test to assess the net benefit of an augmentation to be converted, by recognizing the augmentation to be converted has a timetable of zero time to implement the augmentation, and by setting a value for the converted augmentation which is derived from the lower of the actual cost and the maximum market benefit of an augmentation or augmentations which deliver the maximum NPV of benefits for the lowest cost.

Based on the propensity for the regulatory test outcomes to be challenged (such as experienced with the SNI project), MTC must be rigorous in its preparation of analysis of both Murraylink and all of the likely alternatives, in its support for Murraylink being converted to regulatory status.

As highlighted throughout this paper, MTC has been deficient in identifying and examining all potential alternatives to Murraylink, and must be required to provide additional information for the review of Interested Parties.

The ACCC should not accept the application until MTC provides the additional information.

What are the options to satisfy the needs of the market?

Before an assessment of Murraylink can be undertaken for conversion to regulated status, there is a need to define what are the needs of the SAVic region, what are the advantages and detriments of Murraylink to address the needs and what alternatives to Murraylink have not been considered by MTC.

The needs of SAVic region

The needs of the transmission network (as related to the Murraylink augmentation) can be clearly identified as the need to

- increase transfer capability between the NSW and the SAVic region, to better utilize generation capacity available due to non-coincident weather patterns^{9,10}
- increase transfer capability between the Victorian and South Australian regions, to better utilize the lower cost fuel available for generation in Victoria and the faster response gas fuelled generators in South Australia¹¹
- supply the Riverland region of South Australia which requires additional electricity capacity due to indigenous growth
- provide an alternative route for ancillary services which will assist in maintaining the stability of supply in the SA and Victorian networks.
- provide an alternative transmission and ancillary services supply route to the existing SAVic 500 when weather conditions cause the partial or total shut down of SAVic 500

MTC has advised that its consultant Burns and Roe Worley (BRW)

“...identified and assessed six possible alternatives to Murraylink. They were:

9 The market assessment undertaken by NEMMCo indicates that the SAVic region requires additional power supply to provide for the expected summer peak demands. For example reserve trader powers were to be invoked for summer 2002/03 because of a shortfall of generating capacity in the SAVic region

10 NSW demand has a degree of equivalence between winter and summer peaks and has significant surplus generating capacity

11 Over 70% of SA generation is provided by natural gas, with the bulk of Victorian electricity coming from brown coal

1. Buronga to Monash 275 kV AC mostly overhead transmission line, initially operating at 220 kV, with substation augmentations at Buronga and Monash;
2. Red Cliffs to Monash 140 kV DC mostly overhead transmission line, with substation augmentations at Red Cliffs and Monash;
3. Red Cliffs to Monash 220 kV AC mostly overhead transmission line, with substation augmentations at Red Cliffs and Monash;
4. Robertstown to Monash 275 kV AC overhead transmission line, Heywood to South East substation 275 kV AC overhead transmission line, with substation augmentations at Robertstown, Monash, Heywood and South East substation, and series capacitors at Taillem Bend;
5. Generation in South Australia and the Riverland; and
6. Demand side management.

Of this selection, BRW estimated that Alternative 3 was the lowest cost alternative with a total cost of \$240.4 million, inclusive of lifecycle O&M costs.¹²

Effectively each of the transmission alternatives to Murraylink identified by BRW is to replicate exactly the service provided by Murraylink. What is absent from the listing of alternatives are transmission options which provide a similar or better outcome for all network users in the SAVic region, at a lower cost. The comparative projects considered assume that the only solution to the needs of the SAVic region is a 220 MW interconnection between existing assets at Buronga/Red Cliffs and Monash.

Further, as noted above, examination is required to assess whether 220 MW transfer on Murraylink exceeds the real needs, and whether a smaller project (such as SAVic 650) combined with minor augmentation of Riverland assets will satisfy the needs of the system but at a lower cost.

In addition to the SAVic 650 project ElectraNet has also proposed a further extension of the augmentation of the current Heywood system, which would increase the carrying capacity of the existing SAVic 500 by 250-300 MW¹³ (referred to in this paper as SAVic 800)

12 MTC application dated 18 October 2002, Executive summary, page vi

13 South East-Tungkillo 275 kV Transmission System (PRN1.44). The proposed operational date has been scheduled for December 2007. The development involves the construction of a new single circuit 275 kV line from South East to Taillem Bend substations together with a new single circuit 275 kV line between Taillem Bend and Tungkillo. A new 275 kV substation would be constructed at Tungkillo to connect the new line to one of the two existing Robertstown - Cherry Gardens 275 kV lines. Network studies indicate that that transfer capability is dependent on the local load and generation in the South East Region. The potential network solution cost has been estimated at \$92.0M.

In counterpoint to the approach taken by BRW, the rigour undertaken as part of the SNI/SNOVic studies¹⁴ for regulated status indicates that examination of other alternatives is essential to identify the optimum solution for maximizing market benefit. It is quite clear that the study of alternative solution to the needs should include for augmentation of the existing Riverland supply, augmentation of the existing SAVic 500 to SAVic 650 (even to SAVic 800) and construction of the approved SNI, along with combinations of these and generation and demand side options.

The process undertaken by MTC is deficient in identifying alternative scenarios for achieving the same or similar outcomes to Murraylink operating as a regulated interconnector.

Advantages and disadvantages of Murraylink

MTC advises that the advantages that Murraylink provides to the market are

“... a prescribed service that includes a number of valuable features, unique in the NEM, including but not limited to:

- A continuous power transfer capability of 220 MW available to the NEM that can be used to transfer power between the Victorian and South Australian regions in accordance with NEMMCO’s merit order dispatch instructions, subject to power transfer limits imposed by constraints in other parts of the NEM as described in sections 3.3 and Appendix A of this Application.
- A power transfer capability that is controllable to a high degree of accuracy, and independent of other power flows, impedances, loads and generation in the NEM, including any derating of the Heywood interconnector due to lightning activity.
- Reactive support and assistance with the regulation of the voltage profile of the AC networks at both the sending and receiving ends of Murraylink.
- A runback scheme that provides an intelligent alternative to contingency tripping of Murraylink. If a contingency occurs in the NEM that would otherwise result in an unacceptable overload or under-voltage condition somewhere in the network, Murraylink can, if appropriate, be “run back” (that is, its power flow rapidly reduced) to alleviate the condition, rather than completely switched off as would be the case for a normal AC transmission line.

MTP has already funded a number of augmentations to the AC networks in South Australia and Victoria. ... Additionally and as part of the transfer capability analyses conducted by TEA and verified by PTI, MTC has identified a number of

14 For example see the ROAM analysis of SNI/SNOVic sensitivity analysis

additional network augmentations that will further enhance Murraylink's transfer capability."¹⁵

Although these are claimed to be the province of Murraylink, the approved and committed (but frustrated by the legal appeals of MTC and others) SNI project provides many of these along with other benefits, and therefore the Murraylink claims must be seen in light that many of these self same benefits are to be provided by SNI (and which were taken to account in the approval process for SNI) and other mooted projects.

MTC claims that Murraylink has funded a number of augmentations in the AC networks of SA and Victoria. It must also be recognized that some of these augmentations are required to provide for the transfer capability claimed by MTC and others to provide protection to the AC systems upstream and downstream of the Murraylink connection points needed as a result of the features of operating Murraylink.

What MTC fails to advise and quantify in its application is that the design of Murraylink introduces a number of detriments which need to be recognized and included in the assessment of market benefit.

- An independent review of the Murraylink proposal by the ACCC consultants PBA has identified that Murraylink has a significantly lower transfer capacity than that claimed
- The runback benefits identified have been reviewed by PBA and some network upgrades are noted as being a more economic solution.
- MTC claims imply that Murraylink provides a more reliable supply than (say) SAVic 500, due to its derating due to lightning action. Whilst Murraylink is underground and less subject to weather influences, it must be recognized that at each end it is connected to overhead AC transmission systems which are also subject to the adverse weather which causes outages on SAVic 500. It must be noted that the reliability of a system is only as strong as its weakest link and therefore the transfer capability that Murraylink provides cannot be considered to be more reliable than the AC overhead systems which deliver to and dispatch from the Murraylink terminals.
- No mention is made by MTC of the losses inherent in the design of Murraylink. Conversion to HVDC and back to HVAC is an energy consuming process. These losses need to be quantified and then capitalized¹⁶. It would appear that the capitalized losses are very significant and must not be overlooked.

15 MTC application dated 18 October 2002, Executive summary, pages iii and iv

16 Preliminary indications are that depending on the loading of Murraylink, these inherent losses might exceed an average of 7% and be as high as 10%. MTC should be required to advise the value of the losses, these should be independently verified and the losses

- Line losses along the lines serving the far north west of Victoria and the south west of NSW to the connection point with Murraylink at Red Cliffs need to be compared to the line losses incurred on alternative routes, such as through the stronger transmission system serving SAVic 650 and SNI. The loss differential between the alternative needs to be capitalised
- An AC link across Buronga/Red Cliffs to Monash permits the free flow of electricity, whereas the Murraylink design requires controlled input for it to react to changed circumstances. The AC system is managed by NEMMCo but the application does not define how the instantaneous control of a regulated Murraylink will be managed, and whether there are external costs to do this.
- The design of Murraylink does not permit an instantaneous response to changed circumstances in the network, resulting in a number of cycles delay. An assessment is needed to identify if such delays will impact on other parts of the network during abnormal circumstances.

The process undertaken by MTC is deficient in identifying the benefits and particularly the detriments of operating Murraylink as a regulated interconnector.

Consultation is a requirement for a major augmentation (Code clause 5.6)

Murraylink is a major augmentation of the network. A regulated augmentation is required to undergo a full consultation process with Code Participants and Interested Parties which is outlined in NEC clause 5.6. The need for this consultation process raises an interesting issue with regard to conversion from market based to regulated status.

As part of its approval process as a market based augmentation, MTC was obliged to submit the Murraylink project to NEMMCo and its IPRC. The NEC requires that the Inter-regional Planning Committee (IRPC) review the project *with regard to technical issues only* as they might impact on other networks. The IRPC carried out this review stating that it was not required to examine any economic issues, and that it was not required to carryout a formal consultation process, although it did invite comments. Thus the approval process for market based augmentations is quite limited, and cannot be compared to the approval processes required for a regulated augmentation.

capitalized. A preliminary assessment of the lifetime losses when capitalized is of the order of \$15-20 million.

The first step for review of a regulated augmentation arises as part of the “Annual Interconnector Review” of the IRPC. Amongst other things the IRPC must

“... identify the magnitude and significance of future *network losses* and *constraints* on *power transfers* between *regions* and identify options for the reduction or removal of future *network constraints* and reduction in *network losses*...”¹⁷

NEC clause 5.6.2(c) states

“Where the necessity for *augmentation* or a non-network alternative is identified by the annual planning review conducted under clause 5.6.2(b), joint planning must be undertaken by the relevant *Network Service Providers* in order to determine plans that can be considered by relevant *Code Participants* and *interested parties*.”

NEC clause 5.6.6(b) states

“An applicant who proposes to establish a *new large network asset* must consult all *Code Participants* and *interested parties* about the proposed *new large network asset* in accordance with clause 5.6.6.”

and goes on to require that

“... an *augmentation technical report* prepared by the *Inter-regional Planning Committee* in accordance with 5.6.3(j) if, and only if, the asset is reasonably likely to have a *material inter-network impact* and the applicant has not received the consent to proceed with such construction from all *transmission networks* materially affected by the *new large network asset*.”¹⁸

The clear import of these code provisions is that prior to gaining acceptance of an augmentation (particularly an inter-regional augmentation) there must be a consultation path through the process leading up to the acceptance of an augmentation as a regulated augmentation. In particular the IRPC must be involved in the assessment through its review process. The transmission entities directly affected must be consulted by the applicant, and other Interested Parties must also be consulted. A comprehensive approval process is essential where the risk of the augmentation lies with all network users.

17 NEC clause 5.6.5 (e) (1)

18 NEC clause 5.6.6 (b) (4)

As against this the process to gain approval for a market based augmentation has limited consultation and little independent review. In fact the IRPC review is quite clearly confined to technical issues only. Views of the directly affected transmission companies are limited only to their ability to carry out connection, and work required to be instituted by them to maintain system stability. Such a limited approval process makes sense when the proponent of the augmentation is facing the full market risk.

The purpose for the NEC reviews and consultation by an applicant for a regulated augmentation is clearly to ensure that there has been adequate opportunity for the proposal to undergo the rigors of a detailed external analysis, sufficient for the regulator to be satisfied that all possible options to the proposed augmentation have been canvassed. There has been no such consultation by MTC and as a result the application has not had the benefit that such consultation would bring. As already highlighted in this paper there are a number of options to achieve the same results that Murraylink delivers which have not been assessed.

The benefit of having an independent assessment by the IRPC of a proposed augmentation is that a review of this nature identifies the benefits and shortcomings of the proposed augmentation. The annual review by the IRPC requires it to evaluate, for example, options for reducing losses in the network. As noted in this paper, the losses on Murraylink are likely to be significant, and the IRPC is ideally suited to evaluate these over the long term.

Whilst there is an implication in NEC clause 5.6.6(b)(4) that the augmentation report from the IRPC may not be required if the augmentation has already received approval for construction, it is debatable whether the processes undergone to achieve approval for a market based augmentation would have been sufficient to receive approval for regulated status. Thus for a conversion application there should be the same need to undergo the identical review processes as if the augmentation application was for regulated status. Where a review element is common to both market and regulated augmentations then there should not be a requirement to repeat such reviews and this would appear to be the import of this NEC clause.

The ACCC must require MTP to submit its application for public consultation for the purpose of identifying alternative solutions to Murraylink which have not been included in the limited assessment by MTC consultants BRW.

Further the ACCC should require the IRPC to undertake a review of Murraylink operating as a regulated interconnector to identify its benefits and detriments. In particular the review must examine the likely losses on Murraylink, and the potential ranking in the merit order for Murraylink to be dispatched.

Both the public consultation process and the IRPC reviews are requirements for applications for regulated interconnectors, and a conversion from market based should not be permitted with any less rigour of review.

What is the maximum equivalent net benefit?

General observations

The term “market benefit” does not appear as a defined term in the Code or in the draft Regulatory Test (although the ACCC does provide its views on “market benefit” in section 3.1 of the regulatory test principles dated December 1999) , but in its recent Issues Paper regarding the regulatory test the ACCC notes

In developing the *regulatory test* the Commission extended the cost/benefit framework in order that an optimal outcome is identified and not just any option that generates a net public benefit. That is, the Commission accepted the argument that the *regulatory test* include the principle of maximising prospective benefits over costs. Therefore, a new interconnector or an augmentation option satisfies this test if it maximises the net present value of the market benefit having regard to a number of alternative projects, timings and market development scenarios¹⁹.

This statement raises two key points. The first is that an optimal outcome is “...not just any option that generates a net public benefit.” From this observation comes the conclusion that the optimal outcome is not achieved by any augmentation which passes the regulatory test. The MTP application clearly assumes that this is the case.

19 ACCC Issues paper Review of the regulatory test, 10 May 2002 page 5

The second point recognised by this ACCC commentary is that no two augmentations can deliver the same benefits when all locational issues, rating, design features, cost, construction, environmental, timing and operating parameters are taken into consideration. Thus, when comparing a number of alternative augmentations, it is the value achieved for the expenditure made that is key, rather than equivalence of benefits that needs to be sought.

The principle implicit in developing the cost/benefit analysis is that there is a requirement to take into consideration *both* of the two elements which comprise the calculation. For example, one project may deliver 80% of the benefit of another larger project but for 20% of the cost, mathematically expressed as a benefit to cost ratio of “4” compared to the benefit to cost ratio of “1” for the larger project. This calculation demonstrates that the cost to deliver the last 20% of the larger project has in fact a cost of 80%, implying a benefit to cost ratio of “1/4”.

Thus the maximum net benefit is achieved by the augmentation delivering 80% of the benefit for 20% of the cost and in attempting to recognize the maximisation of the benefit, may in fact prejudice reasonable analysis of the implicit cost/benefit structure.

It is because of this paradox, that when assessing an existing augmentation for conversion to regulatory status care must be taken not to use the apparent size and benefits provided by the proposed augmentation as the basis for comparing it to alternative augmentations, because carrying out cost/benefit analyses on augmentations which may well provide similar or even lesser capacity, may result in a much higher market benefit.

What does the term “maximize” mean in the context of market benefit?

The regulatory test requires the ACCC to

“...maximise the net present value of the market benefit...”

“Maximize” is defined as to “increase or enhance to the utmost”²⁰.

“Market” is defined as “any of the markets or exchanges described in [the Code], for so long as the market or exchange is conducted by *NEMMCO*”²¹

“Benefit” is defined as “something that improves or promotes”²²

20 The Concise Oxford dictionary, seventh ed.

21 National Electricity Code, glossary

22 Collins English dictionary

What these definitions indicate is that there is a requirement implicit in the regulatory test that there must be an increase, enhancement, improvement to the market. An increase, enhancement, improvement can only be measured from a known point, and that point must be related to the present - to relate the enhancement to a point in the past is to exclude the benefit of any enhancements subsequently made, and which may in fact supercede the enhancement being considered.

The application from MTP describes in great detail what the benefits Murraylink can provide, but less about the outcomes expected. For example, there is a perceived need for an augmentation of the delivery system to the Riverland region where Murraylink terminates in SA. However the increase in demand of this region does not warrant a 220 MW supply from Victoria or vice versa, when the demand can be served by an \$11 million augmentation of the existing SA system²³. Another reason for the augmentation would be to increase the supply to the Adelaide region and this could be achieved by augmenting the link through Heywood. This could be result in 130 to 150²⁴ MW delivered to Adelaide for ~\$55 million²⁵.

Thus to set what is the benefit provided by Murraylink requires a calculation as to what is needed by the system, rather than defining the need as that being served by the capacity of the augmentation. To make this point in another way, why provide a service of 220 MW (or less using the PBA assessment) if the bulk of the need can be served in a lower cost way by providing 150 MW.

The ACCC needs to decide whether the demand in the South Australian region is optimally served by the larger volume delivered by Murraylink from Victoria, by a slightly smaller capacity delivered via SAVic 650 from Victoria, or a larger capacity delivered by SNI from another region.

As noted earlier, the requirements for consultation and investigative analysis by the IRPC should provide assistance in this aspect.

“Optimizing” the value of the network assets

The Code requires the regulator to optimize the value of the network as part of each regulatory review. The conversion from market based to regulated status must therefore include for an optimization of the augmentation prior to its inclusion as a regulated asset. This Code requirement therefore requires the

23 ElectraNet 2002 APR, PRN1.36, scheduled for earliest operation Dec 2005

24 There is conflicting advice as to whether the Heywood (SAVic 650) augmentation would increase capacity by 130 MW (ElectraNet assessment) or 150 MW (Southernlink Transmission Company assessment)

25 ElectraNet 2002 APR, PRN1.38, scheduled for earliest operation Dec 2004

regulator to identify the optimum solution for an augmentation and by doing so develop an optimum value for an augmentation.

“Optimum” is defined as “the best compromise between opposing tendencies”²⁶.

The regulatory test was developed to assess the merits of a number of alternatives of different capacities, with the aim of ensuring the preferred solution provided the best overall technical and cost benefit to the market. Unfortunately the conversion of a previously developed market based augmentation presents the regulator with a “fait accompli”, pre-empting any technical evaluation between “opposing tendencies”.

There is no obligation on the regulator to accept a conversion - the decision to permit is clearly noted as being discretionary. Therefore if the regulator is of the view that an alternative augmentation provides a better optimum solution for the operation of the market, then the regulator must use its discretionary power to decide not to permit the conversion.

The Murraylink application

In assessing the net benefit of the Murraylink application for regulated status, the basis for comparison has been consistently to match augmentations of similar apparent size. As demonstrated above, this approach is flawed. It is ironic that MTC has been so critical of the process and apparent shortcomings of the NEMMCo assessment of SNI, but in its own submission, it is quite clear that MTC has failed to properly analyse alternative projects and their associated market benefits.

It has been assumed and apparently accepted that because Murraylink is there, that this provides the optimum technical solution. This has not been demonstrated, particularly as there has been no quantification of what the need is. As discussed above, the over-riding need is to provide more capability to transfer electricity from NSW to the SAVic region. The assessment by the Inter-regional planning committee (IRPC), its approval by NEMMCo and later ratification by the National Electricity Tribunal (NET) indicates that interconnections between NSW and Victoria (SNOVic 400) and NSW and South Australia (SNI) have been identified as being of paramount importance to the overall benefit of the market. Peak demand analyses show clearly that due to the minimal coincidence of demand, utilizing NSW generation to supply Victorian and South Australian peak demands (which are usually coincident) increased interconnection with NSW is required.

²⁶ The Concise Oxford dictionary, seventh ed.

It is recognized that increased interconnection between South Australia and Victoria is desirable, but neither MTC nor the consultants have quantified the size of the need (ie. the optimum transfer capacity) which must be seen as clearly distinct from what can be provided. Based on the volumes traded over the two interconnections between the two states, a much smaller capacity augmentation (such as SAVic 650) would seem to be more than adequate.

Further it is questionable whether the market benefits are being assessed in light of conditions which may have applied at the time a corporate decision was made by MTP to build Murraylink as a market based interconnector. Such an approach is inconsistent with the principle that the regulatory test should be applied in light of conditions applying at the time of the application to convert to regulated status.

Accordingly calculations of the market benefit in the application of the regulatory test for the Murraylink conversion should include for the NEMMCo approved SA-NSW interconnector (SNI) as a regulated interconnector, the request for inclusion of the Heywood augmentation (SAVic 650) in the (subsequently approved) capital expenditure in the current ElectraNet regulated revenue cap and the application by Southernlink Transmission Company (STC) to augment the Heywood (SAVic) interconnector by a market based overlay of the existing SAVic 500 assets. Whilst the SAVic 650 augmentation is proposed and still requires to pass the regulatory test, the SNI proposal has passed the regulatory test and an appeal to the National Electricity Tribunal (NET).

The SNOVic 400 project is now in place and should be assumed as part of the transmission network when benefits of Murraylink and alternative augmentations and interconnectors are being assessed. Equally the impact of SNOVic 800 and NewVic 2500²⁷ should be included as future options for augmentation as potential scenarios.

Assessment of the bases for setting the revenue cap

MTC devotes a considerable portion of its application to establishing the parameters which underpin the revenue cap. The early part of this paper has focused on whether conversion should be permitted and if so, how should the ACCC establish the RAB and operating costs. MTC includes in its application its views as to WACC, depreciation, pass through provisions for certain costs, and the request for a 10 year regulatory control period before a reset is to be established.

27 These projects are proposed augmentations of the NSW and Victoria interconnection

With regard to the calculation of the revenue cap it is expected that the ACCC will approach the revenue setting in accordance with the principles clearly detailed in the recent revenue cap decisions for ElectraNet, PowerNet and GasNet. There is no reason for the ACCC to use parameters and arguments presented by MTC and changing from the approach taken in these recent decisions. In particular the requirement to pass through costs not available to other regulated transmission businesses needs to be closely investigated to ensure equality for all regulated businesses. If the ACCC were to deviate from the regulatory fundamentals followed within the past 2-3 months this would create undesirable precedents.

It is therefore strongly recommended that the fundamentals of the recent ElectraNet and PowerNet decisions should be maintained, so that there is consistency between these and any Murraylink decision. MTC has not presented any sustainable arguments as to why the fundamentals of the recent ACCC decisions should not continue.

MTC has requested a ten year regulatory period. The NEC requires that a regulatory period must exceed 5 years and therefore the ACCC is obliged to consider the MTC request. However the ACCC must also consider the detriments associated with accepting a longer regulatory period, particularly in that acceding to the request will provide Murraylink with regulatory certainty over the period where SNI is likely to come into operation, and according to the 2002 APR from ElectraNet that SAVic 650 is scheduled to be complete as is SAVic 800.

As it would appear that the introduction of other planned projects will further reduce Murraylink in the merit order of dispatch, then to allow MTP a guaranteed income for ten years for providing probably a miniscule service is not in the best interests of the electricity market.

Conclusions

There is a strong argument that the proponents of Murraylink were aware of the risk of alternative projects minimizing the long term profitability of Murraylink. The subsequent actions of the proponents in attempting to thwart the construction of SNI support this view. It would appear that the application for conversion to regulated status of Murraylink is driven by an attempt to obviate a market risk clearly taken with full knowledge of the potential downside.

On the application process and consultation

The application process undertaken by MTC is deficient in identifying alternative scenarios for achieving the same or similar outcomes to Murraylink operating as a regulated interconnector and is deficient in identifying the benefits and particularly the detriments of operating Murraylink as a regulated interconnector.

A public consultation process and an IRPC review are requirements for applications for regulated interconnectors, and a conversion of a market based augmentation should not be permitted with any less rigour of review. The ACCC must require MTP to submit its application for public consultation for the purpose of identifying alternative solutions to Murraylink and the ACCC should request the IRPC to undertake a review of Murraylink operating as a regulated interconnector to identify its benefits and detriments (including losses), and its potential ranking for dispatch.

On discretion to permit conversion

There is no obligation on the regulator to accept a conversion - the decision to permit is clearly noted as being discretionary. Therefore if the regulator is of the view that an alternative augmentation provides a better optimum solution for the operation of the market, then the regulator must use its discretionary power to decide not to permit the conversion. The ACCC must fully explain on what basis it has decided to exercise regulatory discretion in favour of accepting the application for conversion of Murraylink from a market to a regulated basis.

Analysis of recent power transfers between Victoria and South Australia indicates that few constraints occurred on the existing Heywood interconnector, and after its commissioning tests, there has been minimal electricity transfer on Murraylink. At the same time transfers of power from NSW to Victoria (particularly under peak summer demand scenarios) indicates the need for additional interconnection between the SAVic region and NSW. These observations support the view that whilst the national electricity market would benefit from a greater capacity to transfer electricity into the SAVic region, there is less need to transfer electricity between the South Australia and Victoria. Thus a view must be taken as to whether the full capacity of Murraylink (regardless of the rating stated by MTC or assessed by PBA) is the appropriate and optimum transfer capacity needed or whether, for instance, the optimum transfer between South Australia and Victoria should be a lesser amount.

The ACCC must take care when exercising its discretion that it is not permitting a conversion which is the result of a negative outcome of an identifiable (and identified) market risk at the time the decision was made to commit to the market based augmentation. Further the ACCC must be convinced that the request for conversion is not an attempt to maximize windfall gains (or

alternatively to minimize loss) by strategic alternation between market based and regulated status.

On the regulatory test

The ACCC could use the existing regulatory test to assess the net benefit of an augmentation to be converted, by recognizing the augmentation to be converted has a timetable of zero time to implement the augmentation, and by setting a value for the converted augmentation which is derived from the lower of the actual cost and the maximum market benefit of an augmentation or augmentations which deliver the maximum NPV of benefits for the lowest cost.

On revenue setting

It is strongly recommended that the fundamentals of the recent ElectraNet and PowerNet decisions should be maintained, so that there is consistency between these and any Murraylink decision. MTC has not presented any sustainable arguments as to why the fundamentals of the recent ACCC decisions should not continue.

On a ten year regulatory period

As it would appear that the introduction of other planned projects will further reduce Murraylink in the merit order of dispatch, then to allow MTP a guaranteed income for ten years for providing probably a miniscule service is not in the best interests of the electricity market.